

**Indian economy**  
Taking a gamble  
on growth  
Page 15



**Boardroom skills**  
What it takes to be  
a good director  
Page 10



**Managing waste**  
Politics runs  
ahead of science  
Page 12



**Bane or benefit?**  
Hormone treated milk  
stirs up a storm  
Page 14

# FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY MARCH 2 1994

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## PLO sees collapse of talks if Israeli withdrawal delayed



The Middle East peace process could collapse if Israel does not begin its withdrawal from Gaza and Jericho in April as originally planned, a senior member of the Palestine Liberation Organisation warned. The assessment came as Israel began freeing 500 Palestinian prisoners in an attempt to win back the PLO to peace talks after Friday's Hebron mosque massacre. PLO leaders said that chairman Yasser Arafat (above) would have to stay away from direct peace talks with Israel for at least a fortnight to assuage Palestinian outrage at the killings. Page 16; Editorial Comment, Page 15

**Japan's slide may be ending:** Japan could be near the bottom of its protracted recession, the central bank said. Business confidence has ceased to weaken and the bank expected the climate to improve. Page 16

**Brussels positive on Groupe Bull plans:** European competition commissioner Karel Van Miert said he was "impressed" by an outline restructuring and privatisation plan for Groupe Bull, the loss-making French computer group. Page 17

**Setback for Canadian separatists:** Canadian separatist Parti Québécois suffered its first election loss in five years, losing the largely French-speaking Shefford constituency near Montreal to the ruling Liberal party. Page 5

**Russian accused of spying for UK:** Russia arrested an arms dealer it accused of supplying military and economic information to the UK. Page 3

**Protection for EU film industry urged:** European cultural commissioner João de Deus Pinheiro called for greater protection of the European film industry to counter the power of big Hollywood studios. Page 6

**Clinton accused over aircraft sales:** French aerospace leaders accused US president Bill Clinton of intervening unfairly to sell \$6bn worth of US civil aircraft to Saudi Arabia. Page 6

**Wimpey sets up Kazakhstan office:** Wimpey says it is the first UK construction company to establish a permanent office in Kazakhstan, the oil-rich former Soviet republic. Page 6

**Profits up 25% at Abbey:** UK banking group Abbey National announced a 25 per cent increase in pre-tax profits for 1993 to £704m (£103bn) and the board recommended an increase in the full-year dividend of 22 per cent to 14p per share. Page 18; Lex, Page 16

**General Accident, highly rated composite insurer, bolstered recovery in the UK general insurance market by posting annual pre-tax profits of £294.9m (£430.6m) compared with a loss of £29.2m in 1992.** Page 13; Lex, Page 16

**Telecoms push Nokia into profit:** Finnish telecommunications group Nokia reported annual pre-tax profits of £70.15bn (\$825m), compared with a £11.18bn loss in 1992, due to high growth in its mobile and fixed telephone divisions. Page 17

**Westland dismisses GKN bid:** Westland, Britain's sole helicopter manufacturer, dismissed GKN's \$496m (\$724m) hostile takeover bid, accusing the engineering and industrial services group of making an "absurdly low offer". Page 17; Lex, Page 16

**UK car production reaches 20-year high:** British car production reached its highest level since 1974 last year, with Rover overtaking Ford as the UK's largest carmaker for the first time in more than a decade. Page 8

**Minister scorns claims over aid:** Allegations that Britain's overseas aid programme was linked to arms deals with several countries were dismissed as "absolute nonsense" by foreign office minister of state Alastair Goodlad. Page 8

**UK civil service reforms attacked:** A report on Britain's civil service, commissioned by public services minister William Waldegrave, says the creation of agencies to deliver government services has led to fragmentation and accuses Whitehall departments of interfering excessively in the day-to-day management of agencies. Page 7

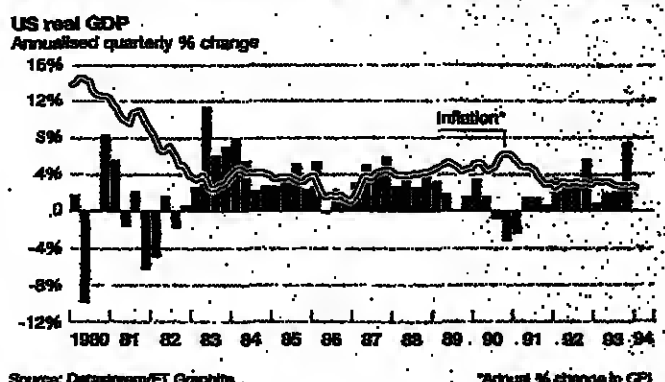
STOCK MARKET INDICES		STERLING	
FT-SE 100	3,270.6 (+57.5)	New York lunchtime	1,487.5
Yield	3.67		
FT-SE Eurotrack 100	1,431.16 (+25.27)	London:	
FT-SE All-Share	1,653.13 (+1.3%)	100	1,406 (1,406)
Nikkei	20,216.91 (+19.42)	100	2,535 (2,535)
New York lunchtime	1,487.5 (+1.3%)	100	2,535 (2,535)
Dow Jones Ind Ave	2,787.57 (+34.05)	100	2,535 (2,535)
S&P Composite	463.53 (+3.61)	100	2,535 (2,535)
US LUNCHTIME RATES		DOLLAR	
Federal Funds	5 1/4%	New York lunchtime	1,487.5
3-mo T-bill	5 1/4%	London:	
Long Bond	8 1/4%	100	1,406 (1,406)
LONDON MONEY		NORTH SEA OIL (Argus)	
3-mo Interbank	5 1/4%	Brent 15-day (Apr)	\$13.525 (13.05)
Libor 1m	5 1/4%	Gold	\$378.4 (382.5)
Libor 3m	5 1/4%	New York Comex (Apr)	\$378.4 (382.5)
Libor 6m	5 1/4%	London	\$378.4 (382.5)
Libor 12m	5 1/4%		

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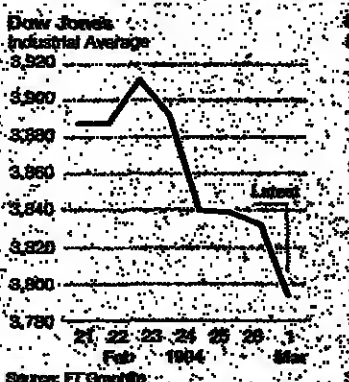
## Unexpected increase in economic expansion marred by sharp price rises US inflation scare hits markets

By Jurek Martin in Washington, Patrick Harverson in New York and John Pitt and Terry Byland in London

Some don't like it hot: strong US growth and inflation fears hit the markets



Source: Datastream/FT Graphics



Source: FT Graphics

International bond and stock markets fell heavily yesterday after a closely watched US economic index showed sharp price increases at the manufacturing level. At the same time, the US government reported that gross domestic product in the final quarter of last year rose at a revised annual rate of 7.5 per cent, far above the 5.9 per cent preliminary estimate and the largest quarterly expansion since the first three months of 1994. The bond market, however, was far more influenced by the price data from the National Association of Purchasing Managers monthly survey. Although its composite index fell only slightly to 56.6 per cent from 57.7 per cent in January, indicating continued healthy expansion, the association's price index surged to 67 per cent from 59.8 per cent the previous month. Renewed inflation fears left the US benchmark 30-year bond down more than a full point by early afternoon, with the yield rising to 6.75 per cent. European bond markets fell sharply on the back of the US sell-off. New York traders said investors were selling bonds because they believed any sign of resurgent inflation would increase the

likelihood of another monetary policy tightening by the Federal Reserve. The US central bank last tightened policy by pushing up short-term interest rates on February 4. The selling in the bond market spread to the stock market, where investors were equally perturbed by the prospect of another Fed rate rise. At one stage the Dow Jones Industrial Average was down more than 40 points, but by 1pm it had recovered some ground, and was down 36.02 at 3,270.6. The setback in bond markets drove share prices lower in London in an effective rerun of Thursday's rout. The FT-SE index closed at the lowest point of the day, down 57.5 at 3,270.6.

- Lex Page 16
- Government bonds Page 21
- London stock market Page 27
- World stock markets Page 38

Trading volume in the stock market remained fairly moderate, however, and the pressure again focused on stock index futures. Continental equity markets were also heavily marked down after the US data was released, with the CAC-40 index in Paris retreating more than 2 per cent and the German Dax index of leading shares sliding 1 per cent during official hours and another 2 per cent in after-hours trading.

The revised US GDP figures brought real annual growth to 3 per cent in 1993, the best since the 3.9 per cent of 1988. More than half of the upward revision was accounted for by exports, which grew at a 20.5 per cent annual rate in the quarter and outstripped the recalculated 18.2 per cent expansion in imports. The overall thrust of the Purchasing Managers survey was also bullish. The report noted in particular that "the strength in new orders strongly suggests future continued growth, but very likely at a lower, more sustainable level." Increases in prices, it said, were "primarily in products whose prices were severely depressed," such as aluminium, brass, copper, nickel and zinc.

Of the component parts of the index, both new orders and the backlog in orders grew in February, but at a lower rate than in January. New export orders rose to the highest level in 4 1/2 years, while import orders also grew, but at a lower rate than in the previous month. Supplier deliveries were at the highest level since June, 1988, indicating strong demand from manufacturers. The government's GDP report for the final quarter also showed broad-based strength, with low inflation (a 1.3 per cent annual rate growth in the implicit price deflator).

## Norway and Austria hold out despite German pressure to reach a compromise Sweden, Finland agree terms to join EU

By David Gardner in Brussels and Hugh Carnegie in Stockholm

Sweden and Finland yesterday agreed terms to join the European Union after five days and three nights of arduous talks, raising hopes that Austria would also settle its membership negotiations last night. In the wake of this breakthrough, there were even hopes that Norway could last night make enough headway to enable a final decision by Oslo when EU foreign ministers meet in Brussels on Monday. Sweden started the bandwagon rolling following the near-collapse of the talks as dawn broke. By lunchtime, under strong Ger-

man pressure on its partners to get an enlargement deal done, the Swedes had settled. Sweden's membership terms were welcomed by all the main government and opposition parties and business organisations. "On all points the EU has taken into account our interests," declared Mr Carl Bildt, prime minister. "In most areas we have reached a good or a very good result," said Mr Ingvar Carlsson, leader of the opposition Social Democratic party. But opponents of Swedish membership, who are currently ahead of the Yes camp in the opinion polls, served notice that they would campaign hard against joining the EU in a referendum due later this year. The accession agreement "means we cannot preserve our neutrality and that we accept the EU's economic policy," said Mr Hans Lindqvist, leader of the No to Europe organisation.

Mr Esko Aho, Finnish prime minister, was more restrained than Mr Bildt. He said the deal "is of course not such a one that we aimed at... but if the details of the agreement prove to be such as we assume I do not find it impossible to live with this agreement." The breakthrough came after the EU agreed to phase in Swedish contributions to the Brussels budget. The Union raised the value of the sweeteners it offered

all four applicants from Ecu2.8bn to Ecu5.6bn (\$3.96bn) over four years, mostly to cushion the impact of the immediate cut in applicant countries' farm prices to EU levels. There was strong resistance to this deal for the rich newcomers, who will not now make significant net contributions to the EU budget until the end of this transition period. The prospect of at least a 15-member Union depends not only on referendums to take place in all four applicant countries, but on the current 12 member states' ability to resolve an internal row over how to adjust voting rules to accommodate the newcomers. Senior EU officials said last night that telephone contacts

were taking place between Chancellor Helmut Kohl of Germany, President François Mitterrand of France and Mr Felipe González, Spanish prime minister, in an effort to resolve this dispute, which could hold up the newcomers' planned entry next January. In the shorter term, Austria last night needed Union blessing to continue restricting pollution-generating EU trucks using its Alpine passes until 2004. Norway was still refusing to concede Spain's demands for some access to its fish, or accept French-led demands for restrictions on its fish products entering the single market.

Cash carries the day, Page 2

Continued on Page 16

## Wellcome's patents on Aids drug face challenge in Europe

By Peter Wise in Lisbon, Bernard Simon in Toronto and Daniel Green in London

Wellcome's patents on its second best-selling drug, the Aids treatment AZT, are likely to face a direct challenge in Europe next month when a Portuguese company launches a Canadian-made version. Farma APS Produtos Farmaceuticos has been authorised by the Portuguese government to market Apo-Zidovudine, a form of AZT manufactured by Apotex, Canada's biggest generic drug maker.

It would be priced 15 to 20 per cent lower than Wellcome's product and would be on the market by April, said Mr Augusto Paiva dos Santos, Farma APS director-general. The move could set a precedent as Wellcome fights to defend patents on Retrovir, its version of AZT, in several countries. The UK company has been in a series of patent disputes with companies, including Apotex, over the right to sell AZT. So far, Wellcome has been victorious in the US, and has actions outstanding in Canada and France.

Apotex said yesterday that "we're moving aggressively all over the world". Portugal is the first European country to register Apo-Zidovudine, but the product is already on sale in some Canadian provinces, as well as in Senegal, South Africa and Brazil among other countries. Retrovir sales were worth \$248m in 1993, and Mr Paiva dos Santos said Portuguese sales last year were more than £500m (\$2.9m). His company plans to compete with Retrovir to supply AZT to Portuguese hospitals.

## Croats and Moslems edge closer to alliance

By George Graham in Washington, Leyla Boulton in Moscow and Laura Silber in Belgrade

Washington and Moscow yesterday pushed forward the Bosnian peace process after Croats and Moslems in the republic edged closer towards creating a new alliance, and Bosnian Serbs agreed to open Tuzla airport for relief flights. After four days of talks in Washington, Bosnian Croats and Moslems reached preliminary agreement on establishing a confederation in western Bosnia. In Moscow Mr Andrei Kozyrev, the Russian foreign minister, managed to persuade Mr Radovan Karadzic, leader of the Bosnian Serbs, to allow Tuzla airport to be placed under United Nations supervision, making it easier to transport aid.

Discussions in Washington between Mr Mate Granic, the Croatian foreign minister, Mr Haris Silajdzic, the Bosnian prime minister, and Mr Kresimir Zubak, leader of the Bosnian Croats, have centred on a US pro-

posed alliance between Croats and Moslems in the republic. The two sides agreed to open Tuzla airport for relief flights. After four days of talks in Washington, Bosnian Croats and Moslems reached preliminary agreement on establishing a confederation in western Bosnia. In Moscow Mr Andrei Kozyrev, the Russian foreign minister, managed to persuade Mr Radovan Karadzic, leader of the Bosnian Serbs, to allow Tuzla airport to be placed under United Nations supervision, making it easier to transport aid.





## NEWS: EUROPE

## EU sees price for aligning policies

By Lionel Barber in Brussels

European Union member states could achieve nominal convergence in inflation and interest rates by 1998, according to a "scenario" published yesterday by the European Commission.

Its report on the European economy in the year 2000 gives a variety of possible outcomes based on different policy assumptions.

However, the Commission warns that even a gradual path to "convergence" would require moderate wage increases, tough budget policies, and a recognition that unemployment would only start falling in 1996. The jobless rate would still be 7.5 per cent in the year 2000.

A more radical approach to labour market flexibility - including a reduction in employers' social security contributions for low-wage earners - could cut unemployment faster, according to the Commission.

Thus the average growth of employment could be 3 per cent, associated with GDP growth of 3.5 per cent. Assuming that real wage costs per head remained one point below productivity, at about 0.5 per cent per year, the unemployment rate could fall to 4.5 per cent by the end of the decade.

"This favourable scenario, appealing as it might be, implies very stringent requirements for public policies and private behaviour, together with the need for strong co-ordination at the Community level," the paper says.

If member states pursue a "do nothing policy" and drop efforts to achieve convergence, they risk social tensions and a return to "beggary-ty-neighbour" policies. The EU would be "plunged into the deeply divergent conditions that prevailed 20 years ago" after the first oil crisis shock, "but with a worse social situation".

Mr Gordon Brown, UK shadow chancellor of the exchequer, called yesterday for a new European recovery fund to finance job-creation projects, investment and training. Without putting a price tag on the new fund, Mr Brown said it would bolster EU-wide efforts to tackle the next recession.

Mr Jacques Delors, president of the European Commission, was sympathetic to the idea.

## David Gardner reports from Brussels on how extra EU money broke the logjam

## Cash carries the day in enlargement talks

The European Union showed endearing consistency yesterday in the way it broke the logjam after five days of grueling talks on entry terms for Sweden, Finland, Austria and Norway.

True to past form, when faced with a choice between the four candidates' problems about money and their difficulties over principle, the EU headed straight for the money.

At midday yesterday, following the near collapse of the talks around dawn, the Swedes settled for a substantial extra financial consideration which gives them, and to a lesser extent the other applicants, a rebate on their EU budgetary contributions in the first three years of membership.

All told, the rich newcomers will get Ecu3.6bn (£2.7bn) in 1995-98 to cushion the instant

alignment of their higher farm prices with EU levels, which the Union insisted on. Not until the end of this period, therefore, will they contribute the net Ecu1.7bn to the EU budget foreseen before this last round of talks - a figure itself less than half original estimates.

The Swedes, in fact, face no wrenching adjustment of their agriculture regime, since their farm prices are similar to the EU's. What they won was a farm adjustment payment (worth up to Ecu2bn in the first three years) and in the tradition of the contentious UK rebate won 10 years ago by Mrs Margaret Thatcher.

"Sometimes it pays to be stubborn," remarked a Swedish negotiator with quiet satisfaction. The Swedes had been

accused of being boneheadedly stubborn over their budget contributions, not only by the EU but by their Nordic neighbours. But they clearly knew whom they were dealing with.

By settling with the Swedes on money, the Union hopes it has "front-loaded a bandwagon", as one EU negotiator put it, on which the other three applicants were yesterday trying to clamber.

By early yesterday evening Finland settled too, for a deal that looked as though it

declared the entire country an Arctic region eligible for special agriculture support. During the night the Union had all but conceded, but carefully camouflaged this in a way politically and culturally unacceptable to the very straightforward Finns. "There is a little bit of mist in it and they

don't like that," acknowledged Mr Piet Dankert, the Dutch European affairs minister.

Austria was due next, on the brink of a formula conceding its demand for restrictions on EU trucks transiting its Alpine passes.

The bandwagon effect was such that even Norway, the most obstinate candidate, whose ministers left the talks at dawn expecting to try again with EU foreign ministers next Monday, returned to the negotiations.

Not every EU member state was delighted by the fiscally-induced breakthrough. The Spanish, French and Dutch thought the applicants were being allowed to get away with highway robbery. They and others criticised the current Greek president of the EU Council, Mr Theodoros Pangalos, for running a bazaar, and Germany for behaving more like the applicants' lawyer than an EU member.

But as the chaotic talks headed for the rocks early this morning, Mr Pangalos refused to admit defeat, Mr Jacques Delors, European Commission president, appeared like a *deus ex machina* with an extra Ecu750m to provide more incentives for the applicants, and Mr Klaus Kinkel, German foreign minister, seized control of the negotiations.

"Germany played a very crucial role," a senior Swedish negotiator acknowledged. For instance, the Germans worked hard to satisfy the Finns by ridding their agriculture text of the normal Euro-ambiguities which so appal the literal-minded Nordics, while keeping it - just - within Euro-rules.

In a rather bolder move, Germany locked up Norwegian and Spanish negotiators to argue about fish, presumably hoping to endorse the views of whoever came out alive. Spain wants 14,000 tonnes of cod or equivalent from Norway's richly endowed and carefully husbanded waters. Oslo, as one Spanish negotiator put it, is sticking to its "NASF" (not a single fish) formula. They won't give an inch.

There was, last night, undeniable momentum at last behind the EU's drive to embrace the Nordic and Alpine candidates and begin the drive for a "wider Europe".

The risk remained, however, that Austria and Norway in particular would continue to play hard-to-get in view of the EU's obvious eagerness to bring them in.



Sweden's finance minister Anne Wibble and European affairs minister Wim Dierckx in Brussels yesterday

## Swedish and Finnish PMs set for battles on the home front

By Hugh Carnegie in Stockholm

Comparing Sweden's accession agreement to its nail-biting capture of the Olympic ice hockey gold medal on Sunday may have been stretching a point for most hockey-mad Swedes. But Mr Carl Bildt, prime minister, was unabashed in celebrating the country's "most important international agreement of the century".

The 44-year-old leader of the conservative Moderate party has made getting traditionally neutral, aloof Sweden into the EU a central platform of his right-centre coalition since it came to power in 1991, alongside his aim of liberalising the huge state sector economy.

Agreement on membership terms is also an important political victory for Mr Bildt. Aho, 39-year-old Finnish prime minister from the Centre party and leader of a similarly comprised coalition.

But both men know there remains a long way to go to secure approval in referendums promised in both countries that will decide if they can join the EU on January 1 next year as scheduled.

First the young prime ministers will be hoping their Nordic fellow applicant, Norway, will also come on board, as a Norwegian decision to stay out would undoubtedly stiffen the

already strong Swedish and Finnish and EU camps.

Then, both Mr Bildt and Mr Aho have to decide when to schedule referendums. Mr Aho, whose own rural-based party is split on the issue, favours the autumn to give time to win over doubters.

Like Mr Aho, Mr Bildt has vital support from the opposition Social Democratic party, which originally lodged Sweden's EU application. But he and Mr Ingvar Carlsson, the SD leader, are set to tangle over the referendum date.

With the latest Swedish opinion polls showing previously strong No support shrinking to 42 per cent, and the Yes vote rising sharply to

35 per cent, Mr Bildt is keen to hold the vote in June or on general election day in September. The Social Democrats, however, want to wait until the autumn believing they need more time to win over strong opposition to membership from within party ranks.

This poses a real dilemma for Mr Bildt. Conventional wisdom dictates that a Yes majority is impossible without a powerful SD Yes campaign. The best conditions for a Yes vote may come if the Social Democrats, currently leading in the polls, win power in September and hold the referendum in October or November. But that is hardly an appealing scenario for Mr Bildt.

It came as a mild relief to a country recently confronted with vile images of neo-Nazis burning out and killing refugees, defacing Jewish cemeteries, and reviving notions worldwide that "the ugly German" was the sole and true representative of the nation.

Awareness has since spread that the Jewish-American boxer, who with a history as a specialist in the ludicrously sentimental, had presented a work, harsh, true and uncompromising, but free of caricature and cliché.

Speaking in the home town of Oskar Schindler, the liberal National Socialist party member and industrialist who saved more than 1,000 Jews from death in wartime German extermination camps, Mr Spielberg reminded his audience of mainly German and central European journalists that last year 60 per cent of US school children had not heard the word "holocaust".

The same cannot be said of German youth, but it won him warm applause from journalists who have already taken up the public service cause with a vengeance. A front page editorial in the influential Frankfurt Allgemeine Zeitung said yesterday the "profoundly ideological" work had a chance to reach an audience far wider than the "selected public" usually reached by "often very important documentaries".

Mr Spielberg, who watched it again last night in the presence of President Richard von Weizsäcker, was himself inspired to start work by film and videotape images transmitted relentlessly out of Bosnia.

He was still putting the finishing touches to another blockbuster movie, *Jurassic Park*. "But when I first heard the words 'ethnic cleansing', it shattered me and I decided to rush into production," he said. He traced himself for the realities of filming in Auschwitz, arriving with a chip on my shoulder, and spent four months at work in "a cemetery". His children learnt how to speak Polish and eat herring. He himself eventually learnt to speak civilly to young German actors in Nazi uniforms, and he heard from them that the work in progress was "the best thing that could happen to their generation".

He could not say if Germany was ready to face the past, as he was asked by a young journalist last night. He could not say why more Jews did not resist being driven to the "asphyxiation rooms". Perhaps these were subjects for future films. "This is about education, awareness and consciousness... and I hope it is not the end of motion pictures about the Shoah," he said.

It's a battle to keep going, professionally. In this branch of medicine you need to keep in close touch with what's happening abroad and I can't do that any longer. I might be able to get a medical job somewhere abroad, but I wouldn't be doing heart operations any longer," Dr Hrujak says.

The Child Heart Foundation, set up in Belgrade two years ago to carry out open-heart surgery, is struggling to survive. Its founder, Dr Vladimir Hrujak, says two members of his team have found jobs abroad, while funding has been cut.

The increasing influence of what Belgrade's professional class calls the "new primitives", the profiteers making money out of sanctions-breaking and the war in Bosnia and the self-avowed nationalists who have taken senior jobs in the public administration, has also speeded up the exodus. "Whether it's the universi-

## 'New primitives' drive Serb professionals abroad

Kerin Hope on those who cannot abide the profiteers and extremists

From ballerinas and basketball players to electronics experts and surgeons, the rump Yugoslavia's professional class is being decimated by emigration.

While no official figures are available, more than 100,000 Serbs are believed to have left the country since the collapse of the Yugoslav federation, many of them young men avoiding conscription.

"What's most disturbing is that those leaving are middle

class people whose skills and ideas will be crucial to rebuilding the country once UN sanctions are lifted," says Mr Ratomir Tadic of the Civil Alliance, a democratic opposition party.

South Africa and Zimbabwe, where immigration regulations are comparatively relaxed, have attracted the largest numbers of Serbian emigrants. Getting to Canada and the US,

where there are well-established expatriate communities from the former Yugoslavia, is more difficult except for students, say would-be migrants.

Most young migrants are university students, but some Serbian parents are spending their hard currency savings to send teenage children abroad to finish their secondary education under exchange pro-

grammes which have not been affected by the UN embargo.

"School in Belgrade is getting impossible. You can't get there because the buses aren't running; kids mess around in class because they don't see any future in studying and the teachers can't handle it. I want to get out," says Jasmina Petrovic, 16, who has to finish high school in Canada.

Yet just before Yugoslavia broke apart, prospects for professionals had rarely looked brighter, under a short-lived reformist government that tried to promote private business, fiscal modernisation and the restructuring of the banking system.

However, the impact of UN sanctions has been almost as devastating for the fledgling private sector as for large state enterprises, where managers' responsibilities have virtually disappeared as exports halted and workers were sent home on "technical leave".

Hyper-inflation in Serbia and Montenegro eroded savings and forced families to sell their

assets to finance their children's studies abroad, at the same time removing any incentive for private investment.

The government's new economic programme, which imposes much higher taxes on private businesses, is expected to drive more people away.

"I don't think there's any understanding of what small entrepreneurs have been trying to do to keep things running despite sanctions," says Mrs Mirjana Blagojevic, a travel agent who used to work for JAT, the former Yugoslav national carrier. "The new taxes will wipe out practically all my profit margin and may send me into retirement abroad."

The increasing influence of what Belgrade's professional class calls the "new primitives", the profiteers making money out of sanctions-breaking and the war in Bosnia and the self-avowed nationalists who have taken senior jobs in the public administration, has also speeded up the exodus. "Whether it's the universi-

ties, the medical system or the media, there's no pretence of jobs on merit any more. They mostly go to people close to the socialists [of President Slobodan Milosevic]," Mr Tadic says. "In business, we're moving towards a Latin American situation of powerful criminal groups effectively controlling the economy."

The rump Yugoslavia's isolation has already affected the quality of medical services, but even the "selected public" and medical supplies are exempt from sanctions.

The Child Heart Foundation, set up in Belgrade two years ago to carry out open-heart surgery, is struggling to survive. Its founder, Dr Vladimir Hrujak, says two members of his team have found jobs abroad, while funding has been cut.

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## Czechs and Slovaks win praise for their progress

By Patrick Blum in Vienna

Sixty years ago Czechoslovakia was among Europe's leading industrial nations. Today the Czech Republic, as the more developed of the two parts of the former Czechoslovak federation, ranks about equal with the European Union's two poorest members in terms of gross domestic product per capita, according to a report on the Czech and Slovak republics by the Organisation for Economic Co-operation and Development.

There is perhaps no more telling statistic for four and half decades of communist management, and debilitating waves of migration that began before the Second World War and ended only with the "velvet revolution" of 1989. The split of the federation on January 1, 1993, further reduced the economic and political stature of its constituent republics.

The whole was greater than the sum of its parts, and both have had to adjust to living separately.

The OECD report shows both countries suffered from the split, though adjustment costs have been far heavier for Slovakia than for the Czechs.

The Czech Republic, with its more diversified industrial base and economy, and close proximity to western markets, adapted more easily, though it has yet to pull out of recession. Slovakia, with its dependence

on heavy industry and armaments aimed at eastern markets, was doubly hit by the collapse of its trading partners in the former Comecon trade bloc, and the loss of financial transfers from the federation. It has also had to build an administration almost from scratch.

Nevertheless, both have made considerable progress in their transition to market economies, the OECD says.

The report praises the Czech Republic for its reforms. Macroeconomic stability has been maintained with underlying inflation at around 10 per cent and "lower than in any other post-communist economy in transition"; the state budget is practically balanced and the current account is in surplus.

Output has continued to stagnate, but the economy appears "set to start on a path of slow expansion in 1994, that may accelerate in 1995". Growth is forecast at 3 per cent this year and 5 per cent in 1995, with exports rising 10 per cent. But it warns, "the transition is far from complete, and much potentially disruptive restructuring remains to be done". The reintroduction of wage controls in July was a step backwards. Unemployment may double to 8 per cent this year.

The OECD is more cautious about Slovakia, though it argues that the economy is already showing a number of

positive features. The private sector accounts for 35-40 per cent of economic activity, and government debt is low compared with that in other eastern European and some OECD countries.

But immediate prospects are poor. A decline in aggregate output of 5 per cent last year is likely to be followed by stagnation this year, with growth of 3 per cent only resuming in 1995. Unemployment is set to rise to 18 per cent of the workforce this year, and inflation will fall only slowly from 25 per cent in 1993 to 20 per cent this year.

The budget deficit is likely to remain at around 5 per cent of GDP, and limited domestic financial resources make reducing the deficit more urgent.

Expenditure on arms production and defence should be reduced.

Political uncertainty has deterred foreign investment, says the report, which urges the government to develop a coherent set of policies for stabilisation and structural reform. Some of the report's statistics compiled before the end of 1993 are already out of date but the main trends remain in place, and as the first comprehensive study of the two countries since they went their separate ways the OECD has usefully begun the job of clearing the air about the real state of the two economies.

## Spielberg soothes German angst

By Christopher Parkes in Frankfurt

If Steve Spielberg had directed Schindler's List when he bought the rights to Thomas Keneally's book in 1982, two weeks after the US opening of ET, it would have been a movie out of a film, he said yesterday.

As things turned out, it became a document "rich in incident and information", or even "a Holocaust Museum at 24 frames a second". And if it is a success by his personal reckoning, and educates people (a financial bonanza goes without saying) "then this picture is a public service".

Speaking hours before last night's German premiere, he could not but be aware that it was already having such an effect. The face of the main character, the un-saintly Oskar Schindler, had two weeks earlier appeared on the front cover of the mass-circulation news magazine Der Spiegel, with the cover-line, "The Good German".

It came as a mild relief to a country recently confronted with vile images of neo-Nazis burning out and killing refugees, defacing Jewish cemeteries, and reviving notions worldwide that "the ugly German" was the sole and true representative of the nation.

Awareness has since spread that the Jewish-American boxer, who with a history as a specialist in the ludicrously sentimental, had presented a work, harsh, true and uncompromising, but free of caricature and cliché.

Speaking in the home town of Oskar Schindler, the liberal National Socialist party member and industrialist who saved more than 1,000 Jews from death in wartime German extermination camps, Mr Spielberg reminded his audience of mainly German and central European journalists that last year 60 per cent of US school children had not heard the word "holocaust".

The same cannot be said of German youth, but it won him warm applause from journalists who have already taken up the public service cause with a vengeance. A front page editorial in the influential Frankfurt Allgemeine Zeitung said yesterday the "profoundly ideological" work had a chance to reach an audience far wider than the "selected public" usually reached by "often very important documentaries".

Mr Spielberg, who watched it again last night in the presence of President Richard von Weizsäcker, was himself inspired to start work by film and videotape images transmitted relentlessly out of Bosnia.

He was still putting the finishing touches to another blockbuster movie, *Jurassic Park*. "But when I first heard the words 'ethnic cleansing', it shattered me and I decided to rush into production," he said. He traced himself for the realities of filming in Auschwitz, arriving with a chip on my shoulder, and spent four months at work in "a cemetery". His children learnt how to speak Polish and eat herring. He himself eventually learnt to speak civilly to young German actors in Nazi uniforms, and he heard from them that the work in progress was "the best thing that could happen to their generation".

He could not say if Germany was ready to face the past, as he was asked by a young journalist last night. He could not say why more Jews did not resist being driven to the "asphyxiation rooms". Perhaps these were subjects for future films. "This is about education, awareness and consciousness... and I hope it is not the end of motion pictures about the Shoah," he said.

It's a battle to keep going, professionally. In this branch of medicine you need to keep in close touch with what's happening abroad and I can't do that any longer. I might be able to get a medical job somewhere abroad, but I wouldn't be doing heart operations any longer," Dr Hrujak says.

The Child Heart Foundation, set up in Belgrade two years ago to carry out open-heart surgery, is struggling to survive. Its founder, Dr Vladimir Hrujak, says two members of his team have found jobs abroad, while funding has been cut.

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## EUROPEAN NEWS DIGEST

## Russian accused of giving defence secrets to UK

Russia yesterday announced it had arrested a Russian arms official for passing on defence secrets to Britain, writes Leyla Boulton from Moscow.

The Itar-Tass news agency said an unnamed Russian citizen had "on assignment of British intelligence for monetary reward" collected and handed over information of a secret military and economic nature.

It said he had been supplied with invisible writing materials and means of secretly supplying information to intelligence agents at the British embassy in Moscow.

A Russian security official later identified the arrested man as the manager of a state-owned company called Special Machine Building and Metallurgy, which specialises in military armour and artillery. Itar-Tass said the man was arrested on January 15 and charged on January 25, with "high treason in the form of espionage".

Only two days after promising western financial institutions that it remained wedded to financial austerity, the Russian government was yesterday arguing over whether to pump billions of roubles into ailing coal mines as a panacea for problems which its radical predecessors had vowed to tackle by freeing coal prices and restructuring the industry. Mr Victor Chernomyrdin, the prime minister, also ordered new subsidies for young children and single mothers and spending increases on Russian officials and new consulates in former Soviet republics.

### Action by German public workers

German public sector workers yesterday stepped up a nationwide campaign of disruption, while the IG Metall engineering union said it was confident of securing backing for a full strike next week. Reuter reports from Frankfurt. In both sectors workers have been angered by management calls for a wage freeze and benefit cuts against a backdrop of recession. The public employees protests have hit transport systems, hospitals, kindergartens and waste collection in large cities across Germany. Meanwhile, Mr Jürgen Peters, head of the IG Metall union in the north German state of Lower Saxony, said he was confident 100,000 engineering workers voting this week would decide overwhelmingly in favour of a strike. The first vote showed an 80 per cent turnout rate, IG Metall said, with a 75 per cent majority of votes needed for a strike. Government officials have talks set with the OTV public sector union for next week, but no talks are in prospect between the two sides in the engineering dispute.

### Turkish lira continues to fall

Turkey's currency crisis deepened yesterday, with the lira losing a further 7.8 per cent, following the official 12 per cent devaluation in January, writes John Murray Brown from Ankara. The central bank dollar rate of TL17,550, compared with a devaluation rate of TL17,250, is putting the economy under increased strain. A sharp increase in overnight interest rates, up to 200 per cent on Monday, has not slowed the depreciation and with reserves down 25 per cent since the start of the year, there is little room available for bank intervention. On February 18 reserves stood at \$4.6bn (£3.15bn) compared with \$7.7bn on December 30. The crisis was sparked by the growing public deficit and the announcement that Turkey's international credit rating had been downgraded by two agencies.

### French politicians questioned

French police yesterday rounded up some 30 local politicians and possible underworld associates for questioning about last Friday's murder of Mrs Yann Piat, a conservative UDF deputy who had crusaded for a clean-up of her Var constituency on the Riviera, writes David Buchan from Paris. Among those questioned were the UDF vice-president of the Var departmental council and the mayor of Hyères whose post Mrs Piat was planning to contest in this month's municipal elections. Earlier this week Mr Charles Pasqua, the interior minister, said he was determined to clean up the Riviera region which was last year identified in a parliamentary report as an area of growing Mafia influence.

### Local elections in Netherlands

The Dutch go to the polls today in local government elections ahead of national elections on May 3, writes Ronald van de Krol from Amsterdam. Opinion polls suggest the two parties in the governing coalition - the Christian Democrats, led by the country's veteran prime minister Mr Ruud Lubbers, and the Labour party - would lose their majority if general elections were held this week, with the opposition Liberals and D66 registering sharp gains. A poll by the Nipo polling company suggests the Christian Democrats' support would fall to just 36 seats in parliament, from 54 in the 1989 elections, and Labour to 31 seats, down from 49.

### Dutch reconsider phone tax

The Dutch government yesterday said it would reconsider its plans to levy a special tax on the profits of companies operating mobile phone networks, writes Ronald van de Krol. The move came after a majority of parties in parliament expressed their opposition to the planned 7.5 per cent tax. The special mobile telephone tax, which would have been the world's first, had been attacked as a threat to the development of modern mobile communications in the Netherlands.

### Romanian ruling party seeks pact

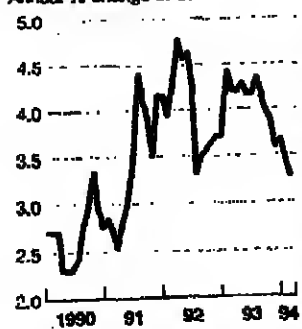
Romania's ruling party was yesterday in talks with the pro-reform Democrat party, after failing to meet a deadline to form a new governing coalition with the Romanian National Unity party, a hardline nationalist organisation, and other extremist parties, writes Virginia Marsh from Bucharest. The PSDR ruled out sharing power with the DP and other pro-reform opposition parties but said the talks were aimed at concluding a political pact with them. Meanwhile, more than 700,000 workers, mainly in heavy industry and mining, yesterday continued their general strike for a second day, the Alia Cartel union said.

## ECONOMIC WATCH

### German inflation eases

## Western German inflation

Annual % change in CPI



Source: Datastream

1985 and 1992, German wages rose a real 20.6 per cent, compared with 12 per cent in Japan and 5.6 per cent in France, Italy and the Netherlands. Rates in the US had fallen by 8 per cent.

Spain's industrial production rose 6.2 per cent in December from a year earlier, but declined 7.6 per cent from November 1993, leaving industrial production for the year down 4.6 per cent on the 1992 figure.

Swedish new car registrations rose by 12 per cent last month to a preliminary 10,714 units, from 9,549 in February 1993. New registrations in January and February were up 20 per cent, to 21,111 from 17,568 the same two months in 1993.

## Longuet sees alliances as industry's hope

John Ridding and David Buchan talk to a French minister with a difficult brief

A minister for industry, trade, posts and telecommunications, Mr Gérard Longuet has one of the broadest and trickiest briefs in the French government. His in-tray bristles with delicate dossiers, from the restructuring of public sector companies selected for privatisation to the reform of France Telecom and the promotion of trade and investment links in international markets.

Yesterday, for example, Mr Longuet was faced with the task of persuading Mr Karel Van Miert, the European competition commissioner, to allow a capital injection of FF77bn (£12.2m) for Groupe Bull, the loss-making state-owned computer group. Brussels' decision on the capital increase will help determine the fate of one of the country's highest technology-based companies.

Bull is just one of the problems inherited by Mr Longuet when he took his post in March last year. With a budget deficit target of FF300bn this year, the state cannot afford to fund loss-making groups and has embarked on a programme of privatisation to support the public coffers. However, to achieve this several companies from Bull to Pechiney, the aluminium group, and Usinor Sidor, the loss-making steel group, need to be prepared for sale.

For Mr Longuet, a self-declared liberal, but also a pragmatist, the solution is often to be found in industrial alliances.

"An important factor for Bull's privatisation is an increased relationship with its present partners, such as NEC," says Mr Longuet, who believes the state's holding in Bull could be reduced to less than 50 per cent by the end of the year.

He dismisses the political sensitivities which could arise from the sale of a substantial part of Bull's capital to a Japanese company.

"Mr (Jean-Marie) Descarpentries (Bull's chairman) has been given carte blanche," he says. He expresses concern, however, about the sale of Rover to BMW, which angered Honda, the British company's partner. "It is a precedent which is not favourable for relations of trust with the Japanese."

The industry minister's enthusiasm for alliances spreads beyond the resolution of public sector problems. In many cases, he views partnerships as the best means to strengthen the position of French companies on the international stage.

"Why do I want to privatise Renault?" asks Mr Longuet. "It is to give it the opportunity to find partnerships with other companies. If the cards in the industry are reshuffled, there is no reason why Renault should not be involved."

Since the failed deal at Volvo, Renault has largely disentangled itself from the cross-shareholdings and industrial alliances that bound the prospective partners. Mr Longuet now hopes to privatise the French motor group this year, depending on the

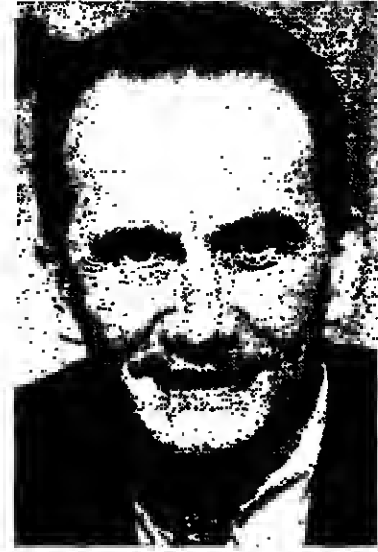
state of the financial markets.

The most striking example of an alliance in Mr Longuet's domain, however, is to be found in the courtship between France Telecom and Deutsche Telekom, its German counterpart. The agreement last December between the second and third largest international telecommunications operators to create a joint venture to supply data and other services to clients is the first step towards a deeper industrial alliance which is expected to include the exchange of equity.

For this to happen the French telecoms group requires a change in its legal status to transform it from a state agency to a public sector company with its own capital. The threat of union opposition, however, has forced Mr Longuet to delay such a change. Negotiations, he says, are being held in an attempt to win the support of France Telecom's employees, many of whom fear that reform is a prelude to privatisation.

Mr Longuet says privatisation is not on the cards. But he is determined to allow the group to open its capital to forge alliances with international partners. France Telecom's defeat by British Telecom last year in the fight for the hand of MCI of the US is a precedent which Mr Longuet does not want to see repeated.

The manoeuvrings of the French and German telecoms groups reflect the close trade and industrial links between the two countries. But according to Mr Longuet there is



Longuet: tricky brief

in fierce competition with the German ICE consortium.

Despite his emphasis on partnerships and alliances, Mr Longuet is confident about the strength of French industry. "For a European country, that is to say a country with a certain level of social protection and salaries, France is very competitive." In support of this he points to export figures, which rose in the final months of last year, despite depressed demand in markets such as Germany.

But if France is to maintain its industrial strength, broader reforms are needed. "The big challenge for a liberal government in France over the coming years is to reinforce our capital investment. We have to create the right conditions for domestic and foreign long-term investment," he says, ruling out "artificial" industrial policies that provide incentives for specific activities.

The first step, he believes, is under way. Mr Edmond Alphandery, the economy minister, has said he will introduce reform of France's pension system which should encourage long-term savings and, through private funds, create vehicles for long-term stock market investment.

Fears of extinguishing France's fragile consumer recovery appear to have pushed back the reform from spring to the autumn, but Mr Longuet is certain the reforms will take place. At least that is one problem in someone else's in-tray. Clinton accused, Page 6

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## NEWS: INTERNATIONAL

## Japanese jobs market improves

Japan's ailing jobs market perked up slightly in January, but the underlying unemployment rate continues to rise, William Dawkins in Tokyo reports.

Unemployment inched down to 2.7 per cent in January, from a revised 2.8 per cent in the previous month, the first fall for nearly two years. At the same time the number of jobs available rose slightly to 67 for every 100 people looking for work, from 65 in the previous month.

However, the January jobless rate still stands at a six-year high and the number of companies announcing early retirements and freezes on recruitment continues to rise.

The total out of work rose by 21 per cent from the same month last year, to 1.84m, the government's management and co-ordination agency reported. New job offers continue to fall sharply in manufacturing, down by 32 per cent over the year to January, though the boom in low cost housing has created a 4.4 per cent rise in construction jobs over the same period.

## Angola cuts exchange rate

Angola devalued its official exchange rate by nearly 30 per cent yesterday, the third devaluation in the past two weeks, Reuters reports from Luanda.

The National Bank of Angola said the official rate of the kwanza was now 24,970 to the dollar, compared to 17,838 in force since February 21 and 12,740 from February 14 when it was cut from 6,500.

The devaluation was part of adjusting the official exchange rate to "a point of macro-economic equilibrium", the bank said.

## Walvis Bay free trade zone opened

Namibian President Sam Nujoma opened a free trade zone in Walvis Bay yesterday, calling the newly-incorporated port a strategic gate to markets in Africa and Latin America, Reuters reports from Walvis Bay, Namibia.

South Africa and Namibia signed a treaty on Monday transferring ownership of Walvis Bay, ending what President Nujoma called the final chapter of apartheid colonialism.

## Algeria reduces oil revenue hopes

Algeria has revised down the revenue it expects from its petroleum exports this year to \$8bn from \$9bn, a spokesman for the state-owned Sonatrach agency said yesterday, Reuters reports from Rabat.

The estimate is "based on an average price of \$15 a barrel for Algerian crude. Our forecast of oil revenues for 1994 will be around \$8bn," the spokesman for Sonatrach's communications department said.

Income from petroleum exports, which represents more than 80 per cent of foreign exchange earnings, was estimated at about \$8bn last year but since then oil prices have fallen.

Mr Abdelhak Bouhafs, Sonatrach's managing director, said in an interview published by the Algerian daily *Liberte* last month "a decline of \$4 a barrel means a loss of \$2bn". Servicing Algeria's foreign debt of \$25.7bn cost \$9.3bn last year.

## Sri Lankans vote

Sri Lankans voted for the first time for 11 years in the war-torn north and also in the east yesterday amid reports of intimidation by ruling party supporters and police, Reuters reports from Colombo.

Residents and an opposition politician reported attacks or threats in polling officers and voters by United National party supporters, helped by police.

## Settlements forced to top of peace agenda

David Horowitz on the issue Rabin was desperate to keep for later in Mideast talks

Mr Yitzhak Rabin, Israel's prime minister, has tied the future of his government and his country to the peace process. If that process collapses, it is likely his government's chances of winning re-election will collapse with it. And, more important perhaps, the chances of a stable Middle East emerging in the foreseeable future are likely to disappear too.

Yet this week, after the massacre in Hebron's Cave of the Patriarchs and with the Palestine Liberation Organisation demanding a crackdown on extremist settlers as a condition for resuming negotiations on Palestinian self-rule in the occupied territories, the prime minister has held back.

Mr Rabin and some of his more loyal ministers have been portraying a new series of measures introduced to curb the wildest settler excesses as harsh beyond precedent. But placing half-a-dozen of the most unsavoury ideologues into three-month terms of administrative detention, and disarming or restricting the movements of about a hundred more, has been insufficient to reassure the Palestinians or to woo them back to the negotiating table.

Baruch Goldstein, the Brooklyn-born doctor whose 111 bullets last Friday have done such damage to the fragile Israeli-Palestinian reconciliation, would not have been on the



army's top six list of dangerous settlers, possibly not even in the top 50. The expressions of support for his actions from sections of the settlement movement suggest that there may be more Baruch Goldsteins out there waiting.

While few in the Israeli mainstream advocates disarming all 115,000 settlers, as the PLO has demanded, there are many, including several cabinet

ministers, who believe the time has come to evacuate the most provocative settlements, such as the Beit Hadassah enclave in the heart of the Palestinian population in Hebron.

It is not that Mr Rabin is fundamentally opposed to the concept of uprooting settlements, as will be sought eventually by the PLO. Far from it. While he is publicly reticent on

the subject, his aides have always indicated that the prime minister regards barely a third of the 140-plus settlements dotted throughout the West Bank and Gaza Strip as serving a vital security purpose.

His ultimate vision, those aides believe, would be to retain the new Jewish Jerusalem suburbs that have sprung up since the capture of Arab

East Jerusalem in 1967, plus a ring of settlements protecting Jerusalem, and another row along the eastern edge of the West Bank, on the border with Jordan. The residents of most other settlements should be offered compensation to move back into Israel, or face the prospect of living under Palestinian rule.

The problem with that vision is that it is not shared by a substantial proportion of the Israeli electorate. Many, maybe even most, Israelis are still reluctant to see settlements evacuated in a land-for-peace deal with the Palestinians. Even in the immediate aftermath of Friday's massacre, a newspaper poll showed that while 46 per cent of Israelis wanted the Beit Hadassah enclave evacuated, 50 per cent believed the settlers should be allowed to remain.

Mr Rabin's intention, as reflected in the provisions of the framework autonomy accord signed at the White House last September, was to win over public support gradually. This would be achieved by first granting the Palestinians self-rule in Gaza and Jericho. It would then be extended throughout much of the West Bank. Over the next two years this should allow the level of Israeli-Palestinian violence to ebb and the first seeds of mutual respect to sprout.

Only in 1996, according to the framework accord, were settlements intended to feature

on the negotiating agenda. And by the time it came to encouraging settlers to leave, at the end of the interim period in 1998/1999, Mr Rabin was betting that a substantial majority of Israelis would be prepared to sacrifice settlements in the cause of a peaceful co-existence they were already enjoying.

Baruch Goldstein has badly denied that scenario. Palestinian negotiators are asking if there is much point in discussing the minute details of the planned transfer of authority, when Goldstein's admirers are free to roam through Arab population centres, machine-guns at the ready, able to open fire at whim and make a mockery of efforts to bring a new era of calm to the occupied territories.

Some Palestinian leaders have been saying since Friday that, unless the settlement issue is placed on the negotiating agenda now, there can be no resumption of talks. Others have stopped short of such a precondition. And Mr Yasser Arafat, the PLO chairman, has been characteristically vague.

Doubtless, in their frequent communications over the past few days, Mr Rabin has been explaining to Mr Arafat exactly why he feels he cannot confront the settlement issue just yet. The future of the Gaza and Jericho-first autonomy plan, so close to realisation before last Friday, may well now hinge on whether Mr Arafat accepts that explanation.

## Massacre takes joy from freed prisoners

Freedom lacked its zest now they had to live with the memory of last Friday's mosque massacre, released Palestinian prisoners returning to Hebron said yesterday, Reuters reports from Hebron.

Israel had said it would release about 500 Palestinian prisoners yesterday, and 300 more by the end of the week in a gesture to calm rage after a Jewish settler gunned down 43 Arabs praying in a mosque at Hebron's Cave of the Patriarchs.

A group of about a dozen just-freed young men looked dazed as they walked down a Hebron street carrying their belongings in shoulder bags. Hebron was still under strict curfew and there was none of the public rejoicing that greeted two prisoner releases after September's PLO-Israel peace deal.

"Of course I'm happy to be out. I have not been free for seven years," said Mr Mohammed Ghaleb Ghethi, 29. "But this is not enough, because of the massacre that happened. I only had five months left to serve anyway." Friday's massacre and the ensuing clashes were the worst day of bloodshed in Israel's 27-year occupation of the West Bank and Gaza Strip and led to a suspension of Middle East peace talks.

The forlorn little group of men had been driven from Ketzioz prison camp in Israel's Negev Desert to Hebron in a busload of about 30 prisoners. They were dropped at Israeli



Adel Namis, one of 500 Palestinians released from Israeli army jails, being welcomed home by relatives in Bethlehem yesterday

occupation headquarters in town and left to find their own way alone.

"I don't even know how I'm going to get home," said Mr Ghethi.

Most of the men had been in prison for some years and were first told they would be freed early yesterday.

The group included Mr Amin Abu Argoub, 21, who

had served 48 months of a 50-month sentence, and Mr Mohammed Abu Khash, 26, who had served four years and seven months of a five-year sentence.

They said all those released were known to the Israeli authorities as supporters of PLO Chairman Yasser Arafat's Fatah faction, although some had become Islamists in

prison. They declined to tell what they had been sentenced for, saying only they were involved in "intifada [Palestinian uprising] activities".

An army communiqué on the prisoner release said the freed men had not "shed blood" or been involved in "terrorist" attacks since the Israel-PLO peace deal.

Mr Abu Argoub said he was glad to be out of Israel's notorious Ketzioz prison. "Conditions were hard and getting worse. We had about 25 to a cell and there were a lot of ill prisoners and not enough medicines."

While they talked on the street, an Israeli army patrol stopped and checked their identity papers.

Mr Abu Khash said he had been happy when he heard in prison last year of the Oslo self-rule agreement between the PLO and Israel. But he said the only goal worth achieving was a Palestinian state.

"The Israeli steps, including our release, are not even 1 per cent of what is necessary," he declared.

## Australia budget priorities set out Price-protest miners vote to stay out

By Nicki Tait in Sydney

Australia's budget priorities in May would be "to improve the prospects for the long-term unemployed, to promote industry and regional development and to implement the Native Title legislation," Mr Ralph Willis, Australian Treasurer, said yesterday.

These measures, coupled with the government's commitment to reduce the budget deficit to about 1 per cent of gross domestic product by 1996-97, meant there would be "little scope for further substantial

initiatives this year". The treasurer's comments came as he unveiled the Australian government's initial budget platform, which is contained in a document called the "fiscal framework". Publication of the background statement is the starting point for negotiations on budget details with the Labor party caucus, and with the major parties holding the balance of power in the Australian senate.

The government is anxious to avoid a repeat of last year's fiasco when its finance package became stalled in parliament for a couple of months, as haggling over specific measures continued. Accordingly, a defined period for negotiations had been set up this year, and the budget data itself moved forward from late summer to May.

The fiscal framework provided few new projections about the economy. But it did play down the likelihood of a "jobs levy" to fund the unemployment measures. "The introduction of a jobs levy... has been suggested as a means of accommodating the increased expenditure pressure without

prejudicing the deficit reduction programme," it said. "While the government has not rejected the suggestion, it would prefer to meet its objectives without having to introduce such a measure."

● Australia saw a seasonally adjusted current account deficit of A\$1.28bn (US\$903m) in January, in line with analysts' predictions, and a considerable improvement on the unexpectedly large deficit recorded in the previous month. The December current account deficit has now been revised to A\$1.8bn.

Australian coalminers, on strike since Sunday to protest at lower coal export prices, have voted to stay out until Friday, Reuters reports from Sydney. Those attending a rally in Canberra demanded an inquiry into negotiations between Australian coal companies and Japanese buyers.

A deal covering Australian coking coal reached in January resulted in price cuts of 8-9.5 per cent for the year starting April 1. The miners, who say

the cuts will lead to fewer jobs and mine closures, repeated their demand for a national coal-marketing authority to negotiate prices with Japanese buyers. Companies say that would be tantamount to nationalisation.

The miners vowed to strike indefinitely if employers took disciplinary action. Mr John Maitland, miners' union president, will meet Prime Minister Paul Keating today to discuss the miners' case.

The EU is seeking cuts in tariffs, greater transparency, improved access for its companies into sectors such as distribution, banks and insurance companies, and a safeguard clause against surges in Chinese exports.

Sir Leon gave Chinese officials a protocol on Gatt entry with a list of requirements. China was a founder member of Gatt but left after the Communist takeover in 1949. It applied to rejoin in 1986.

Sir Leon also raised the issue of what he called serious violations of intellectual property rights. The capacity of China's compact disc industry was enormous but in the absence of agreements with foreign companies it created an incentive for piracy, he declared.

## Hopes rise over HK airport talks

By Simon Holberton in Hong Kong

Britain and China will hold their first formal talks tomorrow on financing Hong Kong's multi-billion-dollar airport since last August, raising hopes that Beijing may be moving closer to an agreement.

The meeting, at China's request, will discuss the Hong Kong government's fourth financial plan for the airport and its connecting railway.

It follows the collapse of Anglo-Chinese co-operation on Hong Kong's political development last week and has prompted speculation among British diplomats that China might be moving towards a separation of economic from political issues.

China has consistently criticised the Hong Kong government's financial plans for the project. It has said the government wants to raise too much debt to finance the project debt which the post-1997 government will have to shoulder. The government's first financial plan, which found favour with international bankers, provided for HK\$16.3bn (US\$2.1bn) of equity and HK\$66.6bn of debt.

Earlier this year, the government offered, in its fourth revised plan, to increase its equity contribution to airport and railway to HK\$80bn, from HK\$45bn previously, and to cut the amount of debt needed to finance the project to HK\$32bn from HK\$66bn.

It is unclear how China will react to this latest plan, in spite of its much-reduced borrowing requirement. Last weekend, after a meeting in Beijing of the Preliminary Working Committee (PWC), some PWC members complained the government had not gone far enough.

It would be surprising if China were to agree to the Hong Kong government's latest plan without extracting further concessions. As today's budget will show, the government's revenues are buoyant and it could afford to pump more equity into the project.

● Hong Kong's property developers shrugged off interest-rate and political worries yesterday to bid record prices for three plots of residential land at a government auction, Reuters reports from Hong Kong.

"The prices were way above expectations. This is obviously a huge vote of confidence in the colony," government land auctioneer Nigel Burley said after the auction.

Mr Burley said the developed properties, units of which will be sold to the public before completion, will come on to the market around 1996 to 1997. Hong Kong reverts to China in July 1997.

Analysts said they were surprised at the high prices - the two more expensive plots at over HK\$200m (£17.3m) each surpassed expectations by more than HK\$500m apiece.

But Hong Kong's stock market reacted negatively to the auction.

## China may enter Gatt 'this year'

Sir Leon Brittan, European trade commissioner, said he believed China could enter Gatt this year and trade and human rights should be dealt with separately, Reuters reports from Beijing.

Sir Leon was speaking after two days of talks with Chinese officials on Sino-EU economic relations.

There would be complex negotiations to agree the nature of the commitments made precisely and the schedule of timing acceptable to the EU, he added.

The EU is seeking cuts in tariffs, greater transparency, improved access for its companies into sectors such as distribution, banks and insurance companies, and a safeguard clause against surges in Chinese exports.

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Sir Leon also raised the issue of what he called serious violations of intellectual property rights. The capacity of China's compact disc industry was enormous but in the absence of agreements with foreign companies it created an incentive for piracy, he declared.

## Vietnam's jobless problem comes out into the open

As the sun rises over Hanoi, hundreds of young men gather on the dusty verge in the middle of Giang Vo street. Some sit in groups; others lie on blankets trying to sleep. Most of the men are peasant farmers. All are looking for work.

Giang Vo street is one of six or more main roads leading into the Vietnamese capital which have become informal job centres. Foremen looking for labour on one of the dozens of construction sites around

## Roads into Hanoi are now informal job centres, writes Iain Simpson

Hanoi come to hire workers by the day, the week or the hour. Giang Vo is lined with shops selling building materials, and the men waiting for work hope

some of the customers will need labour as well as bricks and cement. If they are lucky, they will earn up to \$3 (\$2) a day and return at night to the cheap, crowded hostels where they stay while they are working in Hanoi.

Some men come every day from the countryside around Hanoi to look for work; others have trekked several hundred miles from the provinces of central Vietnam, where, when the rice is planted, there is little else to do.

Unemployment is one of the biggest problems now facing the government in Vietnam. Since pro-market economic reforms were introduced in 1986, the level of joblessness has increased rapidly.

Official figures show more than 2m people unemployed out of a workforce of 32m. There are also 5m-6m people who are under-employed.

Tens of thousands of workers have also been laid off by bankrupt state factories and are looking for new jobs. Also

unemployed are many former soldiers demobilised after the Vietnamese army pulled its troops out of Cambodia in 1989.

Most of the under-employed are peasant farmers, who work in the fields for four to six months of the year. For the rest of the time there is no work in their home villages, so they go to towns and cities in search of other work.

Until recently, the problem of rural under-employment was disguised because people

from the countryside were not allowed to travel to cities such as Hanoi; any found looking for a job were rounded up and sent home. Since 1992, as internal travel restrictions have eased, the under-employed have appeared on the streets of the capital.

One group of men waiting for work on Giang Vo street had arrived in Hanoi a week earlier from the central province of Quang Tri, one of the poorest in Vietnam. "Living in the countryside, I have no job,

I came here so that I can feed my family," one of the men said. But he would not move his family to Hanoi because he could not make enough money for them all to live.

The government hopes that growing foreign investment and the domestic economic boom will create work for many of the people now jobless. But western economists in Hanoi believe unemployment will continue to be a serious problem in Vietnam for many years to come.



## US and UK affirm unity on policies

By Philip Stephens  
in New York

President Bill Clinton and British Prime Minister John Major put aside past differences over Bosnia yesterday and announced broad agreement on a range of foreign policy issues as the US leader reaffirmed the "breadth and depth" of the transatlantic relationship.

After talks in Pittsburgh and Washington they agreed to bolster support for Russian President Boris Yeltsin and to launch an initiative to speed implementation of last year's GATT world trade agreement. Mr Clinton offered strong support for British policy in Hong Kong and carefully sidestepped questions over the visit to the US last month of Mr Gerry Adams, the Sinn Féin leader.

To underline the rapprochement over Bosnia, the two leaders announced they would be sending a joint civil engineering team to Sarajevo to hasten efforts to restore normality to the city. The two governments will approach international financial institutions and seek resources to restore water, power and health services in the Bosnian capital.

After their discussions Mr

Clinton said London and Washington had agreed also on the need to bolster Mr Yeltsin's pursuit of reform in Russia, boost Russian ties with the west, and strengthen Nato's Partnership for Peace programme with the former Communist bloc.

Speaking on the White House lawn after what both

**'Special relationship' still strong, leaders say**

sides were at pains to emphasise had been harmonious meetings, Mr Clinton once again affirmed the strength of the "special relationship". He said that by focusing on occasional problems, such as Bosnia and Ireland, observers had underestimated "the incredible breadth and depth of our shared interests".

Mr Major responded by saying that the Anglo-American alliance was underpinned by "shared interests and shared instincts" on virtually all the big issues facing the west.

To reinforce the point, Mr Clinton offered support for Britain in its dispute with China over democratic reform in Hong Kong. He expressed admiration for Governor Chris Patten's efforts towards "a genuine long-term strategy for economic and political success" in the colony.

Mr Major signalled his hope that agreement with Mr Clinton on the joint approach to Bosnia would defuse the most explosive issue in often difficult relations between London and Washington over the past year. He told journalists that active US involvement in the search for an overall political settlement between Bosnia's warring parties meant that "our policy is heading exactly in the same direction".

Mr Clinton indicated that the US remained determined not to send US troops to Bosnia until there was a comprehensive political settlement, but said Nato's success in relieving Sarajevo had created "a terrific opportunity to build on".

The two leaders will seek to bring forward to January 1995 implementation of the accords reached in the Uruguay Round. Under present plans these would not come into force until the middle of next year.



Clinton (left) and Major: harmonious meetings

## Chilean fears stilled

By David Pilling in Santiago

Future trading losses totalling \$208m (£141m) at Codelco, Chile's state copper company, will not affect the country's 1994 budget, according to Mr Alejandro Foxley, the outgoing finance minister.

Mr Foxley, testifying before a parliamentary commission investigating the losses, which amount to nearly 0.5 per cent of GDP, said the deficit would be met through a combination of last year's budget surplus and extra revenues from Codelco.

Codelco would be able to provide the Treasury with an extra \$61m because of higher production and lower costs than envisaged in the 1993 budget, Mr Foxley said. The remaining \$148m would come from the budget surplus of \$790m.

The losses had been particularly painful, Mr Foxley said, as he had devoted the past four years to saving money to improve the country's fiscal position. As a member of Codelco's board Mr Foxley has been the target of opposition attack over the scandal. He said he had not known Codelco was speculating.

## Bentsen firm on banking rules reform

By George Graham  
in Washington

Mr Lloyd Bentsen, US Treasury secretary, yesterday refused to back down in the face of Federal Reserve Board criticism and insisted that the four overlapping federal bank regulatory agencies must be consolidated.

Mr Bentsen offered to let the Fed - which currently supervises bank holding companies, foreign banks, and state-chartered banks which are members of the Federal Reserve payments system - conduct joint examinations of a cross-section of big banks in partnership with his proposed new Federal Banking Commission.

This commission would have three members appointed for staggered six-year terms, as well as the Treasury secretary and a Fed governor.

He resisted, however, the Fed's desire to remain a separate regulatory agency. "The federal government is not Noah's ark. We don't have, or need, two Securities and Exchange Commissions. Or

two Food and Drug Administrations. Or two central banks. We don't need two sets of rules and interpretations, or two sets of examinations," he told the Senate banking committee.

Mr Bentsen offered to allow the Fed to conduct joint examinations with the Federal Banking Commission of 10 of the 30 largest US banks, as well as of a cross-section of smaller banks. "But there will be just one exam per institution. Just one," Mr Bentsen said.

This concession on joint examinations falls short, however, of meeting the Fed's demands, which are expected to be laid out at another hearing of the Senate banking committee today.

The Fed's principal argument so far has been that it needs to be closely involved in bank regulation in order to stay in touch with market conditions that could affect the whole US financial system. Critics point out that the German Bundesbank, generally held out as a model central bank, has no such responsibilities.

## Caracas acts to curb rise in prices

By Joseph Mann in Caracas

The Venezuelan government has extended the freeze on the retail price of medicines in place since the start of January for 90 days, and set maximum limits on price rises for some food items.

The minister of economic development, Mr Luis Carlos Palacios, said that from yesterday prices for a list of mass-consumption food items frozen since January could be raised by a maximum of 2.5 per cent a month, just below the government's 1994 inflation target of 35 per cent. These items include bread, sugar, vegetable oil, rice, powdered milk, flour, spaghetti and tinned sardines. There are no controls on the prices of most other goods and services, although items such as electric power rates, public transport fares and domestic fuel prices are still regulated or set by the government.

The government announcement came as a price control decree issued by the last administration was due to expire. Mr Palacios said business had agreed to exercise voluntary restraint on price increases as part of efforts to tame inflation, which reached 46 per cent last year.

If prices rose too quickly, he said the government could use the special economic powers it assumed last weekend to order strict price controls.

In a second stage of the administration's inflation control plan, officials will try to convince businesses from producer to retail level to restrain price increases voluntarily for other goods and services not included in the mass consumption list.

## Quebec separatist election defeat

By Robert Gibbons in Montreal  
and Bernard Simon in Toronto

The separatist Parti Québécois has suffered a surprise setback with its first by-election loss in five years in Canada. The victory by Quebec's ruling Liberal party in the largely French-speaking Shefford constituency, east of Montreal, gives an unexpected fillip to Mr Daniel Johnson, the provincial premier, ahead of provincial elections this year.

Mr Johnson, who took over from Mr Robert Bourassa last January, is strongly committed to retaining - if not strengthening - Quebec's ties to the rest of Canada.

Until a few weeks ago a PQ victory in the forthcoming election seemed all but assured. The separatist party has promised to hold an independence referendum within 12 months of taking office.

An opinion poll published yesterday also suggested support for the separatists might be waning. According to the poll, conducted by the Angus Reid group, backing for the PQ's federal counterparts, the Bloc Québécois, has dropped to 38 per cent of decided voters, compared to 49 per cent at last October's general election.

However, the mood remains volatile. Last week the Liberals lost a by-election in a constituency they had held for 37 years. Opinion polls suggest almost a third of Québécois remain undecided.

This week's victory gives backbone to Mr Johnson's efforts to bring aggressive leadership to the Quebec Liberals after two years of indecision caused by the illness of Mr Bourassa.

## Brazilian unions threaten strikes

By Angus Foster in São Paulo

Union leaders in Brazil's biggest industrial state, São Paulo, are threatening one-day strikes in protest against economic measures announced on Monday by Mr Fernando Henrique Cardoso, the finance minister.

Unions claim the measures, designed to pave the way for adoption of a new currency, will reduce workers' spending power.

Metalworkers in São Paulo are due to strike today and union leaders are expected to meet next week to consider further action.

They are worried that under Mr Cardoso's plan salaries are being compulsorily switched into a new accounting unit, the URV (real unit of value), while prices remain free to increase in the local currency, the cruzeiro real.

Business leaders say the strikes are unlikely to be widespread, especially once workers realise the new unit will lead to stable salaries.

"There is no atmosphere for a strike in the country at the moment," according to Mr Wilson Bruiner, president of Aces-

ita, a specialist steel company.

Reaction to Mr Cardoso's announcement was generally positive, although several analysts foresee considerable political pressure to increase spending ahead of October's elections.

Inflation is not expected to fall significantly before the package's next stage, the full adoption of a new currency, likely in May.

Mr Pierre-Alain de Smedt, president of Autolatina, the holding company for Volkswagen and Ford's combined operations, said it remained too early to assess the plan in detail.

"But what is very positive is that the government has been extremely consistent and transparent in putting it forward," he said.

Autolatina plans to start pricing its cars in URVs. The government hopes the private sector will all switch to the new unit.

It is partly designed to replace a number of different indices already in use which measure price rises, thus fuelling inflationary expectations.

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## NEWS: WORLD TRADE

# Brussels challenges Hollywood moguls

Protection of EU film industry urged

By Lionel Barber in Brussels

Mr João de Deus Pinheiro, the European cultural commissioner, yesterday called for greater protection of the European film industry to counter the power of big Hollywood studios.

Mr Pinheiro said the European Commission was considering possible changes later this year to the "television without frontiers" directive which sets quotas on foreign broadcasting material and films. He also called for "positive measures" to promote European programming and films.

The Portuguese commissioner suggested that these measures would create a breathing space for European industry as it struggles against US competition, and could be dropped "once Europe has a healthy film and TV production sector again".

His comments are certain to fuel controversy about the future of European broadcasting policy and increase tensions with the US. Only last week, Mr Pinheiro caused a stir by calling for an end to the system which has allowed the Hollywood studios to pool their

resources to distribute films in Europe without falling foul of EU competition rules.

The Commission will shortly produce a green paper on a strategy for the audio-visual industry based on two central figures: that 50 per cent of programmes on European channels are of US origin, and that US films now account for at least 80 per cent of box-office revenue in every EU country, except France, where it is around 60 per cent.

## US films account for 80% of box office revenue

In his speech to US film producers yesterday, Mr Pinheiro said it was time to redress the "serious imbalance" which existed in the European film market.

"Given that admissions in movie theatres in Europe on the average stagnate, would it not be in the interests of us all... to develop policies developing this market? I

believe the answer is Yes."

Hollywood, which has strong support within the Clinton administration, is likely to be wary of calls for market-sharing dressed up as co-operation.

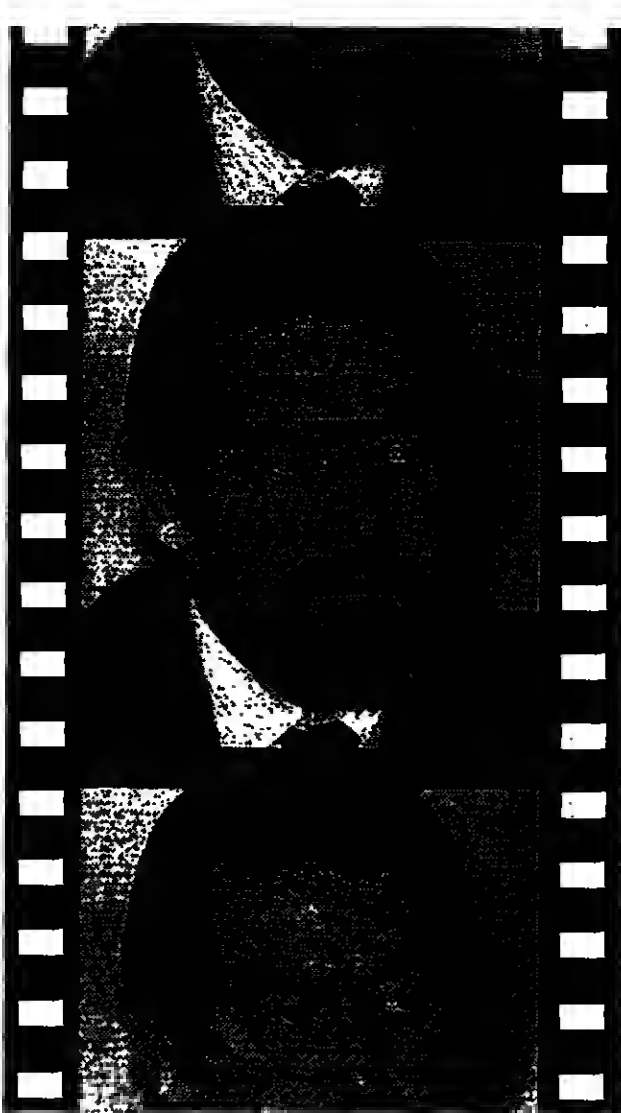
Speaking in Vienna last Monday, Mr Stuart Eizenstat, US ambassador to the EU, said that European quotas on US films were "repugnant" and infringed the principle of freedom of speech.

Mr Pinheiro is vying with French politicians for the title of champion of European culture. In his speech, he attributed the US movie industry's success to the existence of a sound domestic market.

"American films deal with standard stories for a linguistic and culturally unified public," he claimed.

The commissioner, a former Portuguese foreign minister, suggested it was time to create a similar broad European market. "The mistake to avoid could be the creation of 'culturally confused' productions."

Last year, Mr John Birt, director general of the BBC, warned the European Union against attempting to create a "synthetic Euro-culture with a harmonised media industry".



European Commissioner for Culture Pinheiro: now is the time to redress the "serious imbalance" which exists in the film market.

# EU and Tokyo close on vehicle import numbers

By Kevin Donohue, Motor Industry Correspondent, in Brussels

The European Commission and the Japanese government are close to agreeing a forecast for new vehicle sales in the European Union, which would leave the level of Japanese vehicle exports to the EU virtually unchanged from last year.

The Commission is optimistic that last year's prolonged conflict over the level of Japanese vehicle exports to the EU can be avoided.

The latest round of talks, which ended in Tokyo at the weekend, had shown for the first time that little divided the forecasts of the two sides, Mr Martin Bangemann, European industry commissioner, said yesterday.

The EU expected new vehicle demand in west Europe to remain virtually unchanged at last year's very depressed level, said Mr Bangemann, while the Japanese Ministry of International Trade and Industry was forecasting modest growth of up to 3 per cent.

The EU market for cars and light commercial vehicles fell by 15.9 per cent to 11.739m last year, the steepest decline of the post-war period.

In its original estimates last year Tokyo had refused to accept gloomy European forecasts of a steep fall in sales and was then forced to curtail exports drastically last autumn to bring shipments in line with the 1991 EU/Japan accord on Japanese vehicle sales in the Union.

Direct Japanese vehicle exports to the EU fell last year by 18.4 per cent to 890,000 units. The Commission expects a second round of talks with Tokyo to be held in mid-March.

Addressing a European car industry forum organised by the Commission and the European Parliament, Mr Bangemann gave his clear backing yesterday for a continuation of the current controversial "block exemption" for the motor industry, which allows carmakers to use a selective distribution system with exclusive dealers in breach of European competition law.

The 10-year block exemption is due to expire in mid-1995, and the Commission is still divided over whether to accept the motor industry's demand for the selective distribution system to continue.

Mr Bangemann said that the system played an important role in the marketing of Japanese vehicle sales in the EU. "On no account should this be endangered," he said.

He also dismissed arguments from European consumer organisations that the system was responsible for high car prices in the EU.

"I do not believe that getting rid of the selective and exclusive distribution system would lead to more choice and lower prices - but just the reverse," he said.

# Kazakh office for Wimpey

By Andrew Taylor, Construction Correspondent

Wimpey says it has become the first UK construction group to establish a permanent office in Kazakhstan, the oil-rich former Soviet republic. Because of its large mineral wealth, Kazakhstan offers some of the most attractive development and business opportunities in the former Soviet bloc. The country is second only to Russia among the 15 ex-USSR republics in attracting foreign investment.

Wimpey has identified up to \$1bn (£685m) of construction and engineering work which it says the country is likely to let this year to international contractors, with next year's figure likely to be twice as big.

By 1996, as it modernises and improves its infrastructure, the country could be offering work worth up to \$4bn a year to international construction companies. Investment by multinationals in Kazakhstan should provide a further impetus for construction work, says Wimpey.

Mercedes-Benz, Fiat and Daewoo have all established sales offices in the country. Philip Morris is investing \$300m for an 88 per cent share in a cigarette factory and some tobacco farms, and Grand Metropolitan, the UK drinks group, last month announced a joint venture to market Smirnoff vodka in the country.

Wimpey has established an office in the capital, Almaty. The country has substantial deposits of gas, gold, silver, lead, zinc and copper. After Russia it is the second biggest former Soviet oil producer, with an annual output of about 22m tonnes and reserves estimated to be as high as 35bn barrels.

Other potential contracts include substantial road rearmament, upgrading the capital's subway system and mass transit systems generally. Wimpey is already thought to be close to winning contracts to build several hotels.

## NEWS IN BRIEF

# Brazil engine deal for R-R

Rolls-Royce yesterday was selected to supply its heavy thrust Trent 800 engines to power three Boeing 777 wide-body twin engine airliners for Transbrasil, Paul Betts, Aerospace Correspondent, writes from London.

The UK company was competing for the Brazilian order against its two larger US rivals, General Electric and Pratt & Whitney. The new Rolls-Royce-powered 777s, which are still subject to Brazilian government approval, are due to enter airline service in 1996-97 on routes between Brazil and the US.

Transbrasil's 777 order, worth about \$400m (£274m) for the aircraft and engines, is the first from a Latin American carrier. It is also the first Latin American order for the Trent 800 engine. Sir Ralph Robins, Rolls-Royce chairman, said the deal would renew the UK aero-engine maker's links with Transbrasil after about 20 years. The Brazilian carrier flew an all Rolls-Royce engine fleet in the early 1970s, operating Dart-powered Handley Page Herald and Spey-powered BAC One-Elevens.

# Indonesia contract loan

The US Export-Import Bank has announced an offer of a \$34.3m subsidised loan to a US company seeking a contract from Indonesia's state-owned dredging company, P.T. Rukindo, Nancy Dunne reports from Washington.

If the US wins the contract, it will be the first subsidised loan begun under the Clinton administration, which is formulating a more aggressive export finance strategy. The financing backs a bid by Elliott Machine of Baltimore to sell dredging equipment.

Mr Kenneth Brody, Krimbank chairman, yesterday said the bank was pushing support for small companies such as Elliott. It will match, in this case, the offer by a competing Norwegian company, whose name Krimbank could not disclose, of long-term loans at low interest rates. In this way the bank hopes to convince other countries to limit or end subsidised lending.

# New light on sinkings

New light is shed on the reasons for a series of sinkings among dry bulk carriers during the late-1980s and early-1990s, in a report published recently, Charles Batchelor, Transport Correspondent, writes from London.

A total of 64 dry bulk carriers and ore/bulk/oil carriers (OBOs) were lost in the three years from 1991-1993, prompting concerns about the way dry bulk vessels, which typically carry iron ore or coal, were built and the advanced age of the fleet.

But many of the losses were of OBOs, which can carry either dry bulk or oil as cargo, while navigational error was a more important reason for loss than structural or engineering problems, according to a new study by Interargo, the International Association of Dry Cargo Shipowners.

OBOs are often much larger than dry bulk carriers and are subdivided into separate tanks for oil, which makes them more difficult to sink. But they are more vulnerable to explosions, difficult to maintain and more prone to corrosion. In 1992 the loss of nine OBOs disguised a sharp fall in dry bulk losses to 20 from 28 the previous year.

\*Analysis of total loss and fatality statistics 1991-1993: Interargo, 17 Bell Court House, 11-12 Blomfield Street, London EC2M 1AY; free.

# Venezuela iron move

Sivensa, Venezuela's largest publicly traded steelmaker, plans to invest approximately \$50m to raise production capacity of hot briquetted iron at its Veneprec subsidiary in Guayana, the country's mining and heavy industry centre, Joseph Mann reports from Caracas.

The new capacity will be aimed at export markets. Sivensa holds a majority of equity in Veneprec, which began producing HBI in 1990.

# Trade barriers for Israel

Israel is about to introduce a new series of protectionist measures, giving preference to local suppliers over foreign suppliers competing for public sector contracts, David Horowitz writes from Jerusalem.

The new regulations, drawn up by a team headed by Mr Dan Plato, Prime Minister Yitzhak Rabin's economic adviser, require that local suppliers be awarded contracts even if their bids are up to 15 per cent higher than those of foreign competitors. Mr Rabin said: "It's about time the world got the idea that we're not suckers."

The new regulations require foreign companies fulfilling government contracts to pledge reciprocal purchases in Israel to at least 30 per cent of the value of their contracts.

# Jamaican garments plea

Jamaica has asked the textile surveillance arm of the Multi-Fibre Arrangement to resolve a trade dispute with Canada over garments shipped from the island to the US which then enter Canada, Canute James writes from Kingston.

Canada has limited the quantity of Jamaican assembled women's underwear which can enter that country after being shipped from the island under a trade treaty with the US, according to Jamaican officials.

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## Gloom over progress in Ulster talks

By David Owen, Philip Stephens and Michael Cassell

The British government has virtually given up hope of making further significant headway in forging a lasting political settlement in Northern Ireland before the European elections in June.

This follows Monday's announcement by the Ulster Unionists, the province's largest political party, that it would not return to round-table talks with Dublin and other constitutional parties.

Mr James Molyneux, the UUP leader, urged the government to concentrate instead on setting up an internal Ulster assembly - a proposal likely to be vetoed by Mr John Hume's mainly Catholic Social Democratic and Labour party.

London's pessimism over the immediate prospects for further progress emerged last night as Mr John Major voiced his determination to press ahead with the search for a comprehensive settlement.

Mr Major's reaffirmation of the so-called three-stranded approach came after President Bill Clinton carefully avoided questions on whether his administration would again allow Mr Gerry Adams, the Sinn Féin leader, to visit the US.

However, speaking at the White House after talks with Mr Major, Mr Clinton again offered public support for last December's Anglo-Irish declaration as the framework for

eventual peace in Northern Ireland. Senior British officials interpreted this as a clear signal that Mr Adams would in future be barred from the US unless and until Sinn Féin renounced IRA violence.

Ministers have interpreted the UUP's announcement as in effect the start of a three-month period of political manoeuvring in the run-up to the European elections.

The UUP is anxious to protect its flank against Rev Ian Paisley's hardline Democratic Unionist party, which is boycotting bilateral talks with London co-ordinated by Mr Michael Ancram, the Northern Ireland minister.

Mr Major refused to accept that the UUP's disavowal of an Anglo-Irish dimension to a political settlement meant that the process was doomed.

Dublin will also expect its broadly based dialogue with Britain on the political future of the province to continue.

The Anglo-Irish liaison committee which exchanges ideas between London and Dublin on the shape of future political progress in Ulster has already held one meeting since Mr Major and Mr Albert Reynolds, Irish prime minister, agreed last month to put renewed emphasis on joint talks.

Expectations are still high that further moves towards a select committee for Northern Ireland will take place before the end of this month.

## HK company to build £36m plant in Ulster

By Michael Cassell

Three hundred jobs are to be created in Northern Ireland with the decision by Benelux, a Hong Kong-based company, to build a £36m plastics container factory at Limavady, county Londonderry. The decision to site the new plant in an area of the province which has already attracted significant foreign investment was announced yesterday by Mr Tim Smith, Northern Ireland economy minister.

Mr Smith said the factory should be in production by August. It is planned for an 18-acre site and each month will produce 20m compact disc containers to be sold in Europe and the US.

Mr John McGuckian, chairman of Northern Ireland's Industrial Development Board, said the investment represented another success in the province's efforts to attract to the province Asian Pacific companies deciding to start operations in Europe.

In the last 14 months, two Korean

companies - Carmen and Daesung - have announced they are to invest in Ulster. Carmen makes car stereos and Daesung manufactures printed circuit boards. In addition, Texmaco, an Indonesian-based man-made fabrics specialist, has also announced it is to set up a plant.

The Benelux factory will be the first in Europe for the company, which makes microcassettes, floppy discs and containers for audio and video cassettes. Benelux already employs 4,000

people in Hong Kong, China and Indonesia and sells its products to customers such as Sony, Olympus and Philips.

Mr Gary Chow, Benelux chairman, said the company had looked at other European sites and had chosen Ulster primarily because of the availability of "easily trained people" and 24-hour continuous working practices. Financial incentives, he added, had also been an important factor. The province offered "an excellent bridgehead" for European and US markets.

## The best kind of business battleground

Michael Cassell on Belfast's expatriate executives

Tom Johnson, who three years ago moved his family from sleepy Shelbyville, Indiana, to the uncertain streets of Belfast, thought he was heading for "some place like Beirut".

"My preconceptions turned out to be a million miles away from reality," insists the managing director of Ryobi Aluminium Castings, a Japanese-owned automotive castings manufacturer.

He is one of the growing number of expatriate businessmen sent to Northern Ireland to manage companies. He will shortly return to the US, where he will stoutly defend the reputation of a place he says is damaged by distorted reporting and often viewed through a prism of ignorance.

His company had been drawn to the province by the prospect of lucrative contracts to supply Ford of Germany and by a range of incentives as attractive as any in Europe.

Yesterday's announcement by Benelux adds another name to the register of companies who have already decided that Ulster's reputation as a war-

torn trouble-spot is outweighed by its commercial advantages. Estimates suggest that about 55,000 Ulster people are directly employed by overseas companies. In the past year alone inward investors have created more than 1,400 jobs and, since last summer, foreign companies have announced new investments worth well over £100m.

More are in the pipeline. A Taiwanese floppy-disk manufacturer is poised to invest £15m in a new west Belfast factory while a Taiwanese textile group wants to build a £180m plant which will involve the biggest inward investment in the UK for five years. The UK is seeking Brussels approval for the deal, which could mean employment for 2,000 people.

The jobs are badly needed in a part of the UK with higher-than-average unemployment and ghettos where the jobless outnumber those in work. When Ryobi advertised for its first nine skilled operators, more than 150 qualified people applied.

Some US companies are investing in the province - particularly in and around Londonderry - but many remain wary about putting money into what they see as a high-risk commercial climate.

The present pace is being set by Far East companies, which do not appear to be so easily troubled by the province's international image.

For Ryobi, the province beat several other European locations because of the availability of highly skilled workers and a range of grants which totalled about 25 per cent of start-up costs. The highly automated plant in Carrickfergus employs 44 people and, given an improvement in the European automotive market, could eventually give work to 250.

Ryobi, like other foreign investors, has not been touched by the Troubles and stays out of politics. As for Mr Johnson's own thoughts as he prepares to leave, "I would not dare suggest I know the answer and won't preach pessimism or optimism. I am sure it will take some while to sort out but there are so many good people here, one day it must be solved."



Tom Johnson's Ryobi plant near Belfast could eventually provide 250 badly-needed jobs. Picture: Pacemaker Press

## Cabinet Office report criticises civil service reforms

By John Wilman, Public Policy Editor

Mr William Waldegrave, Britain's public services minister, was yesterday required to dig deep into the lexicon of Whitehall-speak as he published a critical report on the government's civil service reforms.

The report, commissioned by Mr Waldegrave, says the creation of

agencies to deliver government services has led to fragmentation of the civil service. And it accuses Whitehall departments of interfering excessively in the day-to-day management of agencies.

Mr Waldegrave described the report as "useful and challenging" - code among the mandarins for "embarrassing and very inconvenient".

The author of the report was Ms Sylvie Trosa, a senior French civil servant seconded to the Cabinet Office to evaluate the reforms. Previously, Ms Trosa worked in the French government's office responsible for public service reform.

This Gallic critic found much that was unsatisfactory about the Anglo-Saxon style of administrative reform.

She appears to have endorsed the central policy in the reforms, the creation of more than 80 executive agencies to deliver services such as the payment of benefits and vehicle licensing. "No one argued for a step backwards," she found.

But she found continuing confusion in the relationship between agencies and their parent departments. Agency chiefs continue to

complain of interference by civil servants in Whitehall.

"There is a whole bureaucracy set up to monitor us," one agency chief executive told Ms Trosa.

Civil servants in central departments are also critical of the agencies, she found. They see the agencies as increasingly drifting away from them in values and culture. Attempts to ensure that staff move

between agencies and departments are "minimal", according to Ms Trosa.

Ministers need to do much more to encourage cohesion in the civil service, she added.

The report is based on extensive interviews with senior civil servants including the chief executives of 26 agencies, half of whom came from outside the civil service.

## Legal row on public sector tendering

By Robert Rice and John Authors

The European Commission seems unlikely to relieve the British government's problems over compulsory competitive tendering in the public sector by narrowing the scope of the Acquired Rights directive.

The Transfer of Undertakings (Protection of Employment) regulations, known as Tupe, which enact the directive, have been held by the courts to apply in some cases to contracting out of public sector services.

When Tupe applies, private contractors must take on the existing workforce on unchanged pay and conditions. This makes it difficult for private contractors to undercut public sector costs, as they usually achieve savings by reducing the workforce.

The UK government has told contractors that it is campaigning for the commission to narrow the scope of the directive so that it does not include public sector tendering.

But a commission discussion paper, leaked to the contractors' lobby group Clause 26, suggests Brussels has no intention of reducing its scope by excluding its application to contracting out.

It says: "The subcontracting of only an activity of an undertaking... does not in itself constitute a transfer of an undertaking within the meaning of the directive."

Ms Melanie Tether, a partner of City solicitors Norton Rose says the reference to subcontracting is merely designed to indicate that the contracting out of an activity will not necessarily involve the transfer of an undertaking.

The discussion paper makes it clear however that there will nevertheless be a transfer if criteria laid down by the European Court of Justice are met.

The discussion paper goes on to say the revision of the directive "should take account of the Court's case law" and "complete its findings."



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## NEWS: UK

# UK car production reaches 20-year peak

By John Griffiths

British car production reached its highest level since 1974 last year, with Rover overtaking Ford as the UK's largest carmaker for the first time in more than a decade.

Rover Group, whose sale to BMW of Germany is expected to be approved by British Aerospace shareholders on March 15, emerged as the biggest producer even when output of Ford's Transit van and other commercial vehicle operations are included. Only when production of Jaguar, bought by Ford in the late 1980s, is taken into

account did the US multinational overtake Rover - and then by only around 2,000 units.

Figures from the Society of Motor Manufacturers and Traders show that the UK's total car output last year reached 1.38m, nearly 7 per cent higher than in 1992 and the highest since the 1.53m units reached in 1974. As the figures emerged, Ford announced that short-time working has ended at its Transit van manufacturing plant at Southampton, and that output of Escorts from its Halewood plant on Merseyside is being increased as a result of continuing

recovery in the UK vehicle market. Rover's output of cars last year totalled 406,804, compared with Ford's 371,723.

This year Ford should once more start closing the gap on Rover, whose output of cars and leisure/utility four-wheel-drive vehicles - classed as cars in the SMMT statistics - rose 7.39 per cent last year to 406,804 from 378,797 in 1992.

Although Rover's production of vehicles classified as light commercial is confined to some Land Rover models and a few Maestro vans, the 19,940 it produced last year lifted its output

to 426,744. This lifted it well clear of the 388,868 cars and vans produced by Ford itself, although Jaguar output added another 29,587 units to Ford's tally.

While Rover has led Ford in actual car output for some time, until last year Ford's traditionally high output of commercial vehicles in the UK has kept it ahead of Rover.

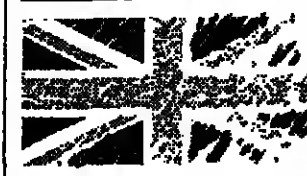
Thus in 1992 Ford's own 302,145 car output trailed well behind Rover's 378,797. But the 151,316 Transits and other vans it produced took its total output, even excluding Jaguar, to 453,461 and ahead of Rover.

Last year, however, the UK's commercial vehicle industry suffered its worst year for production since 1948 and Ford's van output plunged by nearly 25,000 units to 127,065.

Total car output last year continued on its rising trend, up 6.47 per cent to 1,375,524 units, the highest since 1974 - in spite of lower output at Vauxhall and Peugeot.

The main factor in the increase, apart from Rover, was higher output from Nissan's Sunderland plant and production at the Toyota and Honda plants. The three producers made nearly 310,000 cars last year.

## Britain in brief



## Tories stand by attorney general Lyell

Mr Michael Heseltine's evidence to the Scott Inquiry came under fire from Conservative MPs last night as Sir Nicholas Lyell fought growing pressure on him to quit as attorney-general.

Tory backbenchers said Mr Heseltine, trade and industry secretary, had "gone over the top" in accusing Sir Nicholas of giving contradictory advice about his duty to sign public interest immunity certificates. But there was also widespread support for Mr Heseltine's disclosure that he resisted pressure to sign certificates because of fears that vital evidence in the Matrix Churchill exports-to-Iraq trial would be suppressed.

Mrs Margaret Beckett, Labour's deputy leader, demanded Sir Nicholas's resignation during rowdy Commons exchanges, but Mr Tony Newton, the leader of the Commons, said Mr Heseltine had been advised "quite properly" by the attorney-general.

Downing Street also offered strong support to Sir Nicholas. A senior official said he had the "full confidence" of the prime minister.

But friends of Sir Nicholas said he was convinced he would be cleared by Lord Justice Scott, and was determined to resist resignation unless he is strongly criticised in the judge's final report.

## Minister scorns claims over aid

Allegations that Britain's overseas aid programme was linked to arms deals with several countries were dismissed as "absolute nonsense" by Mr Alastair Goodlad, foreign office minister of state, last night.

He told the House of Commons that the foreign affairs select committee should be left to deal with claims that a contract to sell 150m of arms to Malaysia was won because the

UK gave \$234m aid for building the Fergana hydro-electric dam. Mr Douglas Hurd, foreign secretary, is due to give evidence to the committee later today.

Mr Goodlad also condemned suggestions that British companies who contributed to Conservative party funds had been the main beneficiaries of contracts arising from overseas aid and trade deals.

## Cable deal for cricket contest

A consortium of cable television operators have acquired exclusive UK broadcasting rights to the 1996 Cricket World Cup. The 37 matches in India, Pakistan and Sri Lanka will be relayed to the UK by satellite. The deal is a sign that the UK cable operators are becoming confident enough to enter the market for major exclusive sports rights for the first time.

## Jump in UK receiverships

The number of UK companies entering receivership or administration jumped by more than 50 per cent to 248 last month, according to figures from the official London and Edinburgh Gazette analysed by accountants Touche Ross.

The total for the first two months of the year was 411, compared with 772 for the same period last year.

## Big increase in moviegoing

The success of films such as Jurassic Park helped to encourage dramatic increases in UK cinema-going last year, according to the 11th annual survey of the industry.

The research for the Cinema Advertising Association (Cav), found that 69 per cent of those aged over 7 said they visited the cinema, the highest proportion in recent history and an increase of 4m in 1992.

The number of people visiting the cinema regularly, defined as once a month or more, increased from 11 per cent of the population to 14 per cent, accounting for a total of 7.139m visits last year, a rise of 28 per cent compared with the previous year.

# Major upbeat on prospects for recovery

By Philip Stephens in New York

Mr John Major last night sought to talk up the prospects for sustained economic recovery and pledged to hold down Britain's inflation rate.

Speaking to businessmen at the British-American Chambers of Commerce in New York, Mr Major said that the government had set in place "solid foundations for sustained growth throughout the '90s."

Seeking to dispel any impression among American businessmen that the economic recovery might be in doubt, he said that the end of the recession had left Britain in a much stronger competitive position.

Manufacturing productivity was rising by over 5% a year, labour costs had fallen and the employment market was strengthening. Britain was again expecting the fastest growth rate among the main European countries in 1994.

Mr Major said that there had been a fundamental change in working practices which had given Britain its lowest underlying inflation rate for a generation: "the inflation psychology is - at last - in retreat. And I intend to keep it that way."

He added that low inflation was creating its own dynamic for investment and growth.

But the government was determined to move further in sharpening Britain's competitive edge. Emphasising that education remains at the top of his domestic political agenda, the prime minister said that long-term competitiveness would depend "above all on the quality, the ability, the skills of our workforce."

Borrowing some of the recent political rhetoric of the Labour party, he went on: "What we are working for is nothing less than the reskilling of Britain for the 21st century."

Stressing Britain's commitment to free and open trade, Mr Major said that the industrialised nations could not insulate old industries and old habits from global competition. And in a sideswipe against the Japanese, he said that Britain and America should work together to open up Japan's markets to European and US competition.

● Britain's public sector pay bill rose more than 10 per cent in 1992-1993, according to the newly published statistical supplement to the Budget, helping to explain the current squeeze on public pay.

The supplement shows that public sector pay rose from \$68.5bn in 1991-1992 to \$76.2bn in 1992-1993, meaning an average pay rise of 7 per cent (after accounting for inflation) in the middle of a recession.

# Old ghost returns to haunt Clarke

Philip Coggan on responses to the spectre of a resurgence in inflation

The age-old British problem of inflation will once again face Mr Kenneth Clarke, chancellor of the exchequer and Mr Eddie George, governor of the Bank of England, when they hold their monthly monetary meeting today.

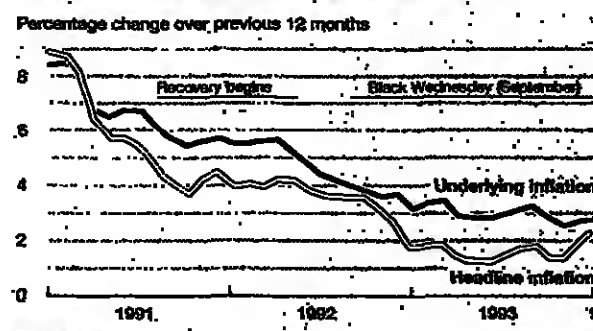
When they met last month, they agreed a quarter of a percentage point cut in base rates, timed to coincide with the publication of the Bank of England's quarterly inflation report.

But when that report forecast that underlying inflation would end 1995 at over 3 per cent, in the top half of the government's 1-4 per cent target range, and warned of an "asymmetric" risk that inflation might be even higher than that, analysts started to question the authorities' anti-inflationary credibility.

Since then, falls in bond markets round the world have indicated that investors are concerned about the resurgence of inflation. But analysts are sharply divided on the prospects for price rises, with some arguing that growth is too weak to prompt inflation, especially with the impact of April's tax rises yet to be felt.

The headline rate of inflation, the annual rise in the retail prices index, rose sharply in January to 2.5 per cent, from 1.9 per cent in December. But this was a statistical quirk. When calculating an annual rate, the monthly increase that drops out of the annual comparison is as important as the new fig-

The long decline comes to an end



ure which enters it. In this case, January 1993, when a round of mortgage cuts caused the RPI to drop by 0.9 per cent, fell out.

So even though the RPI fell 0.4 per cent in January 1994, the net effect was a rise in the annual rate. But the index has actually fallen in three of the past four months and is only 0.1 per cent higher than its level in May 1993. Furthermore, this overall figure disguises remarkable price falls in some sectors, such as clothing and household goods.

The underlying rate of inflation, excluding mortgage movements, rose only slightly from 2.7 per cent in December to 2.8 per cent in January, mainly due to the effect of the Budget on excise duties. It now looks set to stay much closer to the headline rate, because of the disappearance of the effects of the large mortgage rate cuts after Black Wednesday. However, the Bank of

England is not looking at the past but trying to monitor price pressures two years ahead. Which factors will determine future inflation depends, in part, on which economic school one believes. But the main indicators are:

● Money supply. M0 (mainly notes and coins) has been growing well outside its 0.4 per cent monitoring range but the government points to low interest rates, which reduce the cost of holding cash, as the main reason. Growth in M4 (broad money) is still at the low end of its 3-9 per cent monitoring range.

● Producer prices. Manufacturers' costs are still falling. Input prices dropped 2.5 per cent in the 12 months to February, but output prices rose 3.7 per cent over the same period, showing that manufacturers have been widening margins.

● Wage rises. The rate of growth in wages is much slower than when Britain last

emerged from recession in the early 1980s. Average earnings grew at only 3 per cent in the year to December.

● Commodities. The resurgence of enthusiasm for gold is cited by some, including the US Federal Reserve, as an indicator of inflationary expectations. But the price of oil remains subdued at around \$13.50 a barrel. It is hard to see much inflationary pressure from this area.

● World conditions. Inflation is subdued in most of the developed world. Even in the US, where the Federal Reserve has begun to raise rates, the annual rate is little higher than that in the UK. The effects of the devaluation of sterling in September 1992 seem to have worked through the system.

The immediate future for the headline rate of inflation is quite promising. The months about to drop out of the annual comparison - February and March 1993 - saw the RPI rise by 0.7 and 0.4 per cent respectively.

So the Governor and the chancellor have a mixed picture to discuss. The balance of inflationary indicators is probably positive but the reaction to last month's base rate cut might persuade them that caution is needed.

In its February report, the Bank cited "inflationary expectations" as a crucial factor in future price movements; so the authorities may not want to risk being characterised as being soft on inflation by cutting rates too soon.

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# CAN EUROPE

## Ideas people at back of the field

**Clive Cookson and Andrew Fisher explain how Europe is failing in the race to innovate**

Europe is being left behind in the race for scientific and technological advantage between the world's main industrialised countries. It takes only a few statistics to show how far Japan and the US have pulled ahead and how rapidly they are increasing their lead.

While high technology products account for nearly a third of US exports and more than a quarter of Japan's, they make up less than a fifth of those from western Europe. Figures from the European Patent Office show that Europe is falling behind the US and Japan in registering new inventions.

Mr Paul Brandt, the EPO's president, finds it alarming that initial patent filings in Europe have not increased at all since 1987, while those in the US have risen by 30 per cent and in Japan by 8 per cent.

"That is already a good indication that in Europe we are lazy in innovating or do not exploit our innovations," Mr Brandt says. "Something must be wrong."

Yet comparing national strengths in science and technology is a hazardous exercise, bedevilled by incomplete definitions. In principle, the inputs - resources devoted to research and development - are simple to assess. It is far harder to measure the quantity and quality of different countries' scientific output.

Input data from the OECD in Paris show that Europe fell behind the US and Japan in overall R&D spending during the 1980s. The European performance was held back particularly by the UK - the only industrialised country that devoted a smaller proportion of gross domestic product to R&D in 1991 than in 1981 - and Germany, where there was only a marginal increase. France and Italy pushed up spending more rapidly, from a lower base.

In 1991, the 12 EU countries devoted 1.96 per cent of GDP to R&D, compared with 2.74 per cent in the US and 2.57 per cent in Japan. Only Germany (2.66 per cent) came close to the American and Japanese levels.

Stripping out the high levels of military R&D in the US and some European countries, Japan takes a clear global lead. It spends 2.8 per cent of GDP on civil science and technology, compared with 2.1 per cent in the US and 1.8 per cent in the EU.

There are many possible ways of assessing the output of

R&D. Its industrial impact can be measured indirectly by the export/import ratios of science-based industries. These show Europe's weakness in computers and office machinery, with a ratio falling from 0.54 in 1985 to 0.39 in 1990 (compared to 0.96 for Japan and 0.96 for the US) - and its strength in pharmaceuticals, where the ratio in 1990 was 1.78 (compared to 0.32 for Japan and 1.55 for the US).

But success in manufacturing industries depends on many factors besides R&D, such as management and sales skills and quality control. A more direct technique for assessing strength in science and technology is to measure the quantity and quality of patents and scientific papers produced by a company or country.

Europe's total share of US patents - seen as the most reliable measure of competitive strength - has declined since 1980, due to a dramatic expansion by Japan and more recently by the newly industrialised Asian countries. But again, the decline is far from even. "The figures clearly show European countries going down the tubes in electronics but continuing to hold their own in areas where they have traditionally been strong, such as drugs, medicines and biotechnology," says Dr Francis Marin, president of CHI Research, a consultancy based in New Jersey, which tracks patents issued in the US.

In drugs and medicines, the combined share of US patents held by Germany, France and the UK slipped from 22.7 per cent in 1982 to 18.1 per cent in 1992. In electrical equipment, the corresponding European share fell from 16 per cent in 1982 to 10.1 per cent in 1992.

However, there are bright spots in Europe's science-based industries - even in electronics. Siemens of Germany, the largest European electronics group, is investing DM2.4bn (£900m) in Dresden, eastern Germany, to develop and make powerful memory chips for the telecommunications and vehicle markets. And Philips, the second largest, is challenging the Japanese dominance of

liquid crystal displays for portable computers, with a FI200m (£70m) plant next to its R&D centre in the Netherlands. In Sweden, Ericsson is investing 22 per cent of its turnover on developing advanced new telecommunications products. It decided boldly in 1991 to spend 15 times as much on R&D as on dividends, although some investors were horrified. Now Ericsson has 60 per cent of the world market for digital mobile phone systems and more than a third of its total orders are for products that did not exist two years ago.

But on the whole Europeans are less willing to take risks with R&D than Americans - both at the corporate level and at the level of the individual researcher. The Japanese may be conformists as individuals but they move boldly as companies, as Sony showed when it created the Walkman market.

Reluctance to take risks is one of many factors - social, cultural, political, educational and financial - blamed for Europe's failure to translate basic research more effectively into faster economic growth. Although there is no consensus about the relative importance of these reasons, few doubt that Europe's continuing fragmentation is an important handicap in the race with the relatively homogeneous US and Japan.

In general, therefore, Europe's strongest suit is pure science. The further away a field lies from potential commercial application, the more likely it is that Europe will be ahead. The latest example is high-energy physics: Cern, the particle physics laboratory near Geneva on which 19 European countries spend £400m a year, will have an undisputed world lead for at least a generation, following last year's cancellation of the US Superconducting Supercollider (SSC).

The next discoveries about the fundamental forces and particles that hold the Universe together are likely to be made in Europe - which may provide some intellectual consolation to Europeans if the coming decades bring economic decline.

## The great research divide widens

**Lagging in R&D**  
By Clive Cookson and Andrew Fisher

Dr George Poste, research director of SmithKline Beecham, the Anglo-American pharmaceutical group, and Prof Jürgen Drews, his counterpart at Roche of Switzerland, divide their time almost equally between the US and Europe - reflecting their companies' 50:50 split of R&D facilities on either side of the Atlantic. Both find the scientific infrastructure more hospitable in the US.

The most important factor in determining where science-based companies invest in research is the availability of R&D personnel, Dr Poste says. "I don't think Europe has the same long-term potential as a source of skilled personnel as the US."

Although European universities are widely praised for the quality of their basic research, many industrial scientists say they lag behind their American counterparts in providing a useful service to industry, either as a source of well educated graduates or as a partner in collaborative research projects.

All industrial research managers agree that a fundamental handicap for Europe is its political, cultural and economic fragmentation.

That makes it harder to mobilise technical resources for large-scale strategic programmes.

Dr Frank Carrubba, an American who moved from California to the Netherlands in 1991 to become chief technical officer of Philips, says an important example is the Clinton administration's ambitious programme to stimulate the construction of "information superhighways" - communications networks that will eventually enable every home and business to receive a wide variety of multimedia electronic services. "The US is already ahead by 2½ years, if not more, in many areas of multimedia and the information society."

Dr Carrubba says Europeans need to appreciate the extent to which the Clinton programme has galvanised the US electronics and information industries into action. "There's an incredible political drive behind it, with [Vice-President] Al Gore going from school to school, town meeting to town meeting, talking about information superhighways."

The problem is that Europe is not putting this high on the political agenda. There have been some good individual projects here but very few focused efforts.

Europe has had success with focused efforts at high-tech laboratories in the past. One is the European Space Agency whose efforts to develop a reliable satellite launcher have led to a commercial operation in the form of ArianeSpace, with more than half of the world market. Another, Airbus, is another in the aerospace field. Research collaboration on a broader front has been gathering pace through the EU Framework programmes. The Fourth Framework Programme will direct 12bn ecu (£9bn) at a wide range of projects over the next five years, from computing to the life sciences.

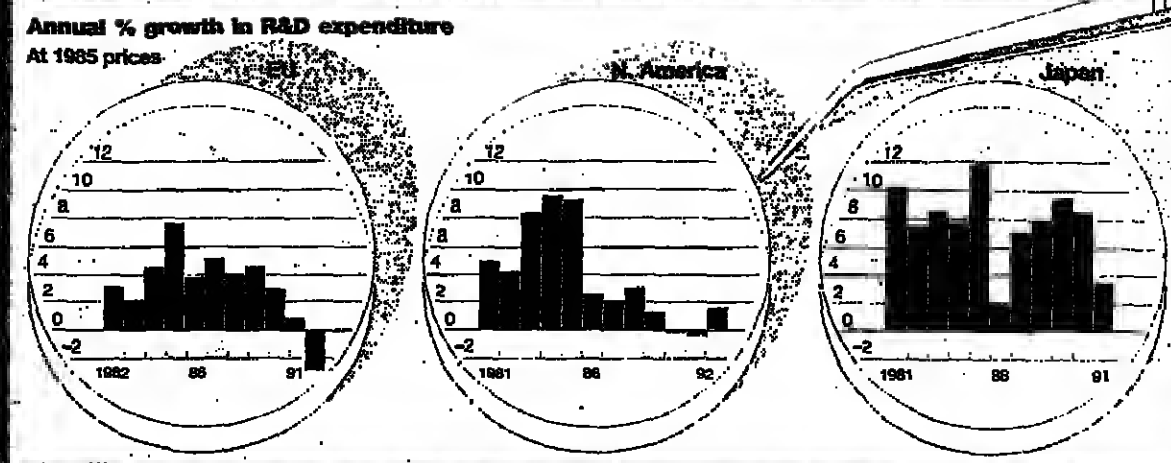
But as Dr Poste sees it, "the challenge is to move from a culturally fragmented community to a union that can harness its enormous scientific potential."

It is still bedevilled by the need to make sure that everything is spread equally across the community, rather than being directed to where it would do the most good.

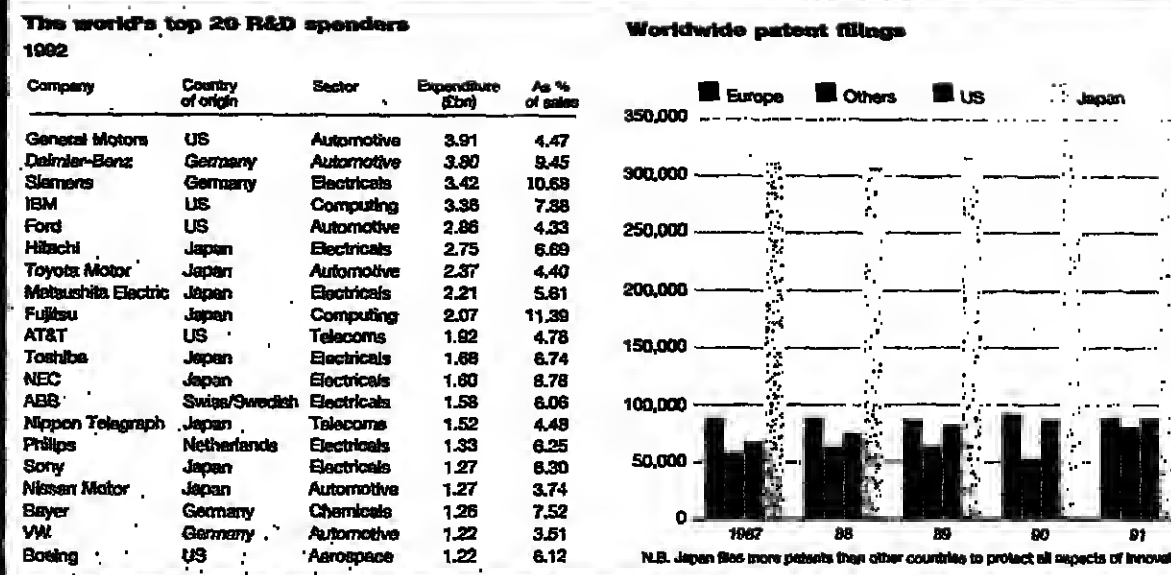
## COMPETE?

Technology & innovation

R&D spending grows more slowly in Europe than in US or Japan...



...and patent activity stagnates compared to the rest of the world...



...but Europe has not given up on the key technologies of the future

Technologies to watch	Europe prospects: Fair
<b>GENE SPlicing</b> Invented in California (1973), though much underlying genetic research had been carried out in Europe. Now the most important techniques underlying biotechnology. Greatest developed potential in US, with many European drug companies tapping into US biotech skills.	Europe prospects: Fair
<b>PERSONAL COMPUTERS</b> Invented and developed largely in US during 1970s. American companies lead in PC hardware and software. But Japan and other Asian countries making useful applications, especially in the booming area of portable computers. European niche players at best.	Europe prospects: Poor
<b>SEMICONDUCTOR MANUFACTURING</b> Discovered in the US but key developments made in UK during 1970s. Medical equipment companies in Europe, Japan and the US now manufacturing MRI body scanners. Technology advancing rapidly; new machines will show not only images but also biochemical reactions inside the body.	Europe prospects: Good
<b>NEURAL NETWORKS</b> Main development work done in US during 1980s. So far neural networks used mostly for military purposes and research but budding firms widespread in financial and industrial sectors for pattern recognition and forecasting. Though leaders are US & Japanese, Europe is catching up.	Europe prospects: Fair
<b>HIGH-TEMPERATURE SUPERCONDUCTIVITY</b> Discovered in 1986 in Switzerland at IBM's Zurich research centre. Academic and industrial laboratories in many countries racing to exploit new ceramic materials which lose all electrical resistance at industrially useful temperatures of liquid nitrogen. US and Japan ahead of Europe.	Europe prospects: Fair
<b>COMMUNICATIONS SATELLITES</b> Spin-off from US and Soviet space exploration and defence programmes starting in 1950s. Industry is divided between Japan (dominant in ground equipment), US (satellite construction) and Europe (launching).	Europe prospects: Fair

## Prospects lie in IT's rapid rate of change

**Electronics**  
By Alan Cane

Europe's contribution to the evolution of information technology in the two decades following the invention of the microprocessor has been strong in telecommunications but weak in microelectronics and computing.

One measure is commercial success. Of the world's 12 leading telecoms equipment companies in 1991, seven were European. Compare this with Europe's overall position in information technology: only 12 of the world's top 100 IT companies in 1992 were European-owned, according to *Data-mation* magazine. Europe's top three, Siemens-Nixdorf, Olivetti and Groupe Bull, continue to lose money heavily.

Europe's strength in telecoms is chiefly a consequence of protected markets. Most European telecoms authorities and their suppliers continue to enjoy the protection of regulated and monopolistic regimes. The European electronics and computer companies have never had similar protection but their relative failure involves complex factors including recession, inadequate finance and insular markets which do not encourage economies of scale.

Europe's weakness also has much to do with its consistent failure to contribute technically to the IT revolution. It seems continually to be catching up rather than leading. Meanwhile, the US is

ploughing ahead with plans for a national information highway, for example, while Europe is still debating the issue.

There is an exception. France invented, developed and championed the "smart" or computer card. It has now been adopted all over the world for applications ranging from an electronic key to an electronic wallet.

The world market for microprocessors, nevertheless, is owned by the US companies Intel and Motorola. Packaged software, both systems and applications, is dominated by US suppliers such as Microsoft and Lotus. The design of large computer systems has been increasingly relinquished to the US and Japan.

How serious is the situation for Europe? Mr Pasquale Fiorito, chief executive of SGS-Thomson Microelectronics, puts it bluntly: "No advanced industrial society can exist without controlled access to an advanced electronics industry, which in turn cannot exist without controlled access to an advanced semiconductor industry." This sort of thinking has generated a raft of attempts to turn the tide, chiefly in the form of EU research programmes encouraging pan-European collaboration in "pre-competitive" research. Last year EU ministers decided that information technology should have the lions' share (28.2 per cent or about £3bn) of the budget for the Framework Research programme extending from 1994-96.

It will be the fourth such programme. Has the money

been well spent? There have been some successes. EU funds, for example, went into the development of the ARM microprocessor, a small, fast chip designed for high-volume production and well suited to tiny computers and games machines, which has been adopted by Apple for its Newton pocket computer.

On the other hand ES2 - once hailed as the greatest success of the Eureka programme, a Europe-wide initiative supporting market-oriented research - has failed to live up to the highest expectations.

The ES2 story is instructive. The company, based in France and owned by a consortium of European industrial groups, was founded to exploit what was thought to be a large emerging market for chips which could be quickly customised by electron beam for specific applications. At first it looked likely to fulfil its promise, then the technology changed and chips which could be tailored more cheaply gained a hold on the market. ES2 remains profitable but it has not been a success on the scale envisaged. "The analysts got their forecasts wrong," says Mr Robin Saxby, formerly at ES2 and now chief executive of chip-maker ARM.

Europe's best hope for the future seems to lie in the phenomenon which damaged ES2's prospects - the dramatic rate of change in the IT industries. No European chip maker could hope to capture a share of the personal computer microprocessor market; but the trend is to smaller devices, opening a window for ARM.

**Biotechnology**  
By Clive Cookson

Compared to the entrepreneurial and scientific ferment of the US biotechnology industry, the European scene seems sedate.

Europe has nothing to match America's estimated 1,300 biotech businesses - 240 of them public companies - nor the volume of hype about their research achievements, gener-

## Wisdom in hills above Nice

Half-buried on the hills outside Nice in the south of France sits a unique cluster of high-tech companies and research establishments.

Off-duty scientists jog by low-slung buildings, housing pharmaceutical laboratories and computer centres that handle world-wide transactions for clients like Citibank or Air France. This is Sophia Antipolis, set up at the end of the 1960s to bring top-class brainpower to a landscape of Mediterranean pines and solar-powered street lights.

The science park, named after the Greek word for "wisdom" and the historical name for nearby Antibes, has grown into a small town. It provides jobs for 16,000 people of 40 nationalities, as well as places for 2,000 students at an extension of Nice university.

Sophia Antipolis - about to celebrate its 25th anniversary this summer - has come of age. However, it is still struggling to make an impact in overcoming the main problem faced by European science: leaping the hurdles between the laboratory and the marketplace.

Mr Philippe Boulanger, the youthful managing director of a five-year-old telecommunications

**CASE STUDY:**  
**Sophia Antipolis, science park**

On France's sun-filled Mediterranean coast, scientists strive to commercialise laboratory ideas. Not everyone, however, can find the winning formula

David Marsh reports

concern. Access Privilege, illustrates one way the obstacles can be overcome. After receiving a doctorate at Nice university, he established his company with three partners in a small office complex offering stunning views of the Alps.

His company has just been bought by the Sagem telecommunications group, in a deal that will make him a millionaire. Mr Boulanger says his success has been based on specialising in a field (in his case, networks using Apple computers) where there was effectively no competition. He admits, however, he knows only one other person in France who has had a similar breakthrough.

Another success story is FDM Pharma, based here since 1981. This 200-strong company,

which has hitherto doubled turnover every year, uses sophisticated computer technology to record hospital drug tests for US and European pharmaceutical companies. Mr Benoit Bouche, the 33-year-old chairman, says he brought the company to the science park after a top US scientist he wanted to hire refused to move to its original headquarters in Lille in northern France.

The official tally of corporations - totalling 980 - highlights the site's attractiveness. Those present range from large concerns like Thomson, Digital Equipment, AT&T and Wellcome to many small businesses employing less than 10 people.

Companies in the computer field have, however, been facing difficulties. The international downturn in the com-

puter industry has led to 400 job losses at Digital (now down to 600 staff) and similar cuts at nearby research establishments of IBM and Texas Instruments.

Mr Pierre Bernhart, director of the Sophia Antipolis branch of the public sector computer research institute Inria, says the site's magnetic qualities affects even those who have lost their jobs. Many computer engineers who have recently been made redundant have stayed on to start new businesses.

Sophia Antipolis places a lot of hope on companies in the health care sector. Mr Jacques Le Guillerm, managing director of the local offshoot of Cordis, the US medical group, says the science park has been saved by its multi-disciplinary structure. "If we had simply had information technology here, it would have been catastrophic." Cordis research and production staff here has grown from 150 to 200 during the last 18 months.

Mr Le Guillerm praises exchanges between pharmacological engineers and information technologists at Sophia Antipolis. "Synergy is now starting to take off." A long journey, however, still lies ahead.

This is the fifth part of a 10-part series. Tomorrow: Environment.



## MANAGEMENT

## Malcolm Wheatley reports on a recent convert to vendor appraisal Score card for the suppliers

You do not need to be a "total quality management" fanatic to recognise that most companies would benefit considerably from making regular and detailed assessments of the performance of their suppliers.

Mark and Spencer, the UK retailer, has done so for decades. Yet, except in retailing, "vendor appraisal" – the American term for the approach – still seems stuck on the starting block.

US computer company Sun Microsystems, a relatively recent convert, says that its experiences with the practice bear out two claims made for it: that it raises suppliers' performance, and that they in turn benefit from, and appreciate receiving, performance tracking.

Supplier effectiveness is crucial to the survival of the \$4bn (\$2.7bn) company, explains Mel Friedman, vice-president of corporate supplier management. Sun has used its expertise with the "Spec" chip behind its range of high-powered minicomputers to create an impressive global customer base, but has fought shy of a heavy manufacturing involvement.

"Fifty five per cent of every revenue dollar goes to suppliers," says Friedman. It is unique among the group of companies with which it competes, he points out, for operating without any chip fabrication facilities of its own.

In part, the strategy has paid off. Sun's steady revenue growth has outstripped the more vertically-integrated IBM, Digital Equipment and Hewlett-Packard by several orders of magnitude.

But earnings per share have been more erratic, and four years ago prompted the company to seek an improved – and more consistent – performance from its suppliers.

Given its high level of dependence on suppliers, the company was also determined to monitor their effectiveness over a broader spectrum than price, quality and delivery reliability. In order to assess the total cost of dealing with a supplier, suppliers' ongoing technological development and back-up support mattered too, Friedman argues.

Each supplier's performance

against the company's "score card" is reviewed quarterly with members of the supplier's senior management. The long-term objective is to dispense with periodic measurement and have the data online.

Several things make the Sun scheme stand out. One is the way it has been extended beyond the core of suppliers who produce parts to go inside computers; airlines and car rental companies have also been assessed. Another is striving to avoid fuzzy measurements, even in areas such as technical capability.

The company looks at suppliers' investment levels and what Friedman describes as their "technological road map" with precisely formulated expectations. With printed circuit boards, for example, particular levels of expertise are set as minimum standards.

Targets are constantly made tougher: three years ago "on time delivery" meant delivery within a time band stretching from three days early to one day late. Now it means two days early and zero days late.

Moving the goalposts has disguised progress: although suppliers' score card performance has only improved from 1.33 to 1.93 (1 is a "perfect" score, 2 is failure) since the scheme's inception, this is misleading. On a constant measurement criteria basis, claims Friedman, suppliers' performance has shot from 1.33 to 1.00 – in other words, to a level that Sun regarded as perfection three years ago.

Suppliers' attitudes have been very positive, says Friedman. "It's a symbiotic relationship," he argues. "The attributes we measure help the supplier."

Alastair Kelly, managing director of Design to Distribution, the newly autonomous subcontract manufacturing operation of UK computer supplier ICL, agrees.

The volume of Sun business which he undertakes has grown tenfold to \$4m since 1990, and he has now imposed the Sun vendor assessment approach on his own suppliers. "It's the best bit of free benchmarking I get," he says.

What does it take to make a good chief executive? And what to make a good chairman, or a good executive director? These seem pretty basic questions yet they are ones which companies rarely ask themselves. While academics write papers about "key competences", there are few signs that boards of directors take any notice.

Last week the UK's Institute of Directors and the Henley Management College attempted to answer the questions in a way that they hope will be of practical use. With admirable precision, they have drawn up a list of no fewer than 29 qualities which are deemed essential in boardrooms of companies from the biggest to the smallest. They have considered each different role on the board and allocated the qualities accordingly.

The chief executive turns out to need all but four of these qualities, the chairman needs 18, the executive directors need just 10, while non-executive directors need only nine. The idea is that companies have a yardstick against which to hire new directors and to measure existing ones (sending them off on courses to acquire those qualities which they do not possess).

The lists are part of an even more ambitious project to set general standards for all aspects of board behaviour and performance. IoD and Henley set about writing such guidelines – at the government's invitation – it quickly became clear that there was little point in discussing the tasks of boards without reference to the quality of its members.

The lists are likely to be one of the most controversial parts of their report. The authors are asking for comments, but may not be prepared for what may be a lively debate, to put it politely. There will be screams of protest from those who reckon the wrong qualities have been selected, as well as from those who feel directors are so diverse there is little point in looking for common characteristics.

Victor Dulewicz of Henley Management College, co-author of the report, warns that it is still only in draft form, and that in any case the lists are meant to be applied with flexibility. "We are not saying this is the list. We are saying: use it as a starting point."

He argues that the selection of British directors is dangerously amateurish. Companies use sophisticated tests when recruiting senior and middle managers – sending them to assessment centres and running psychometric tests, yet when it comes to choosing the most important people, most decisions are made on a seat-of-the-pants basis. "These lists are more system-

### What it takes to be a successful director

	CH	CE/MD	EX	NED
Proactive analysis				
Critical faculty				
Intuitive vision				
Organisational awareness				
Strategic awareness				
Vision				
Imagination				
Judgement				
Design/strategy				
Change-orientated				
Verbal communication				
Listening				
Openness				
Co-ordinating				
Assertiveness				
Impact				
Persuasiveness				
Motivating others				
Planning				
Organising				
Delegating				
Appraising				
Developing managers				
Energy				
Achievement motivation				
Determination				
Equeness/justice				
Resilience				
Integrity				

## Qualities that count

Lucy Kellaway studies a new list that attempts to set standards in Britain's boardrooms

atic than the methods some companies are using," he says.

Even so, people are already arguing that the list is not complete, and is full of inconsistencies. For instance, it is not clear why chairmen need to be good talkers but chief executives do not. Nor why non-executives need to be good at criticising, but need not be so good at analysing problems. Worse, many people – Sir Adrian Cadbury among them – would say independence is the most important trait of the non-executive. Yet this is nowhere on the list.

Colin Coulson-Thomas, academic and consultant in boardroom practice, agrees that the list contains

some alarming omissions. Directors, he says, must be self-aware. They must also be constantly learning. They must also be robust as individuals. "Some people seem to be doing well, but they are slating on thin ice. The moment anything looks dangerous they resign."

In response, Dulewicz points out that the list was not something dreamed up by the authors, but reflects the distilled views of 340 experienced directors. As such, it says much about the current preoccupations of boards. The only two qualities which are deemed essential for all board members are integrity and a "change orientated" disposition. Post-Cadbury, everybody

feels obliged to pay at least lip-service to integrity, while managing change is a concept so fashionable that it is hard to question it.

More fundamental are the complaints that the very nature of the project is flawed. Headhunters who make a living by selecting directors reckon that lists are unusable as a practical tool. "In theory it might be useful to have a checklist. But you couldn't recruit using this," says Ian Butcher of Whitehead Mann.

Coulson-Thomas argues that the main weakness of lists is that they cannot take account of the relationship between board members. "People can be excellent on one board and hopeless on another. It is to do with whether they complement the strengths of other board members. There is no point in putting them through a test if they are going to prove incompatible," he says.

He reckons that the skills you need as a manager are relatively easy to define, and therefore lend themselves to formal assessment. By contrast, at board level an outstanding director might fall on many of the listed qualities, yet have two or three dazzling strengths that more than compensate for their weaknesses. "Those people tend to be lost when people use models of indentikit candidates," Coulson-Thomas says.

Even those commentators who are friendly to the idea of a list of qualities are worried about the application. John Hunt of the London Business School refers to academic research that has succeeded in linking certain qualities of directors to company performance. Many of these are similar to those on the IoD list. They include "interpersonal skills", strategic awareness, information processing and motivational drive.

However, he reckons the lists can still be dangerous in the hands of careless companies. "They are an improvement on the 'do you know Fred, he's a good chap' sort of recruitment," says Hunt. But there is a risk that some organisations are assessing people on these characteristics but are using dubious instruments. They might be looking for the right qualities, but they have no appropriate means of finding them.

While not everyone agrees with the report, most would argue that the present boardroom practice is far from ideal. Recent research in the UK has shown that fewer than one in eight companies makes any attempt to measure the effectiveness of its directors. Regardless of the value of the 29 qualities, anything that gets companies to question whether their directors are suited to their jobs is progress.

*"Good Practice for Boards of Directors. IoD and Henley Management College."*

## Europe's most admired

Senior European company executives are being invited to "vote" for Europe's Most Respected Companies in a new survey by the Financial Times in association with Price Waterhouse.

Business leaders will be asked to nominate companies in their particular sector based on seven specific qualities.

They will be asked to consider the standard of customer focus, customer loyalty and service, the quality of employees, products and services, and the company with the most outstanding business performance – for example, the company that has shown consistent growth and long-term profitability, is a low-cost producer or whose results are used as a benchmark by others.

Participants will also be asked which company in their industry demonstrates clear leadership and management qualities.

Other questions cover which companies have the most effective strategy, perhaps in terms of policy and objectives or response to opportunities in the emerging European market, and which companies care about the environment.

Finally, respondents are invited to nominate the company which they admire overall.

Almost 2,000 chairmen, chief executives and finance officers from 640 European companies are being invited to take part in the survey. The companies span 21 sectors and include the largest quoted, state-owned and private companies in 17 nations from Portugal to Turkey.

The results of the confidential questionnaire are expected to provide a fascinating insight into which companies command most respect from their peers, and why.

The Financial Times plans to publish the results of the survey, and the winners of the award for Europe's Most Respected Companies, in the newspaper later this year.

Paul Taylor

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No.1 in terms of number of deals, excluding own issues (source: IFR/SDC OmniBase)



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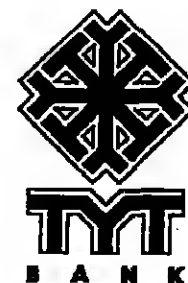
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## BUSINESS AND THE ENVIRONMENT



Disposing of mounting piles of waste is one of the hardest environmental problems for governments to get right. Few have yet done so. The issue causes political pitfalls. In many industrialised countries, recycling is one of the few "green" issues which reliably stirs up public passion even when recession has muted other concerns about the environment. It gives economists headaches: are taxes or regulation the best tools, and how tough should they be?

These debates also take place against a backdrop of scientific controversy about which disposal methods harm the environment least, a debate handicapped by a shortage of thorough research. "Much recycling does not make economic sense - and some of it uses more energy than it saves," says Steve Webb, policy director of the UK's National Association of Waste Disposal Contractors (NAWDC).

Industrialised countries are now grappling with attempts to improve the control of solid waste from every part of their economies, from households and industry to agriculture and mining. The European Union is working on a new directive to insist that a majority of packaging is recycled. More than 70 countries worldwide - with the notable exception of Russia - agreed last month to ban dumping of radioactive material at sea. North Atlantic countries have signed a similar, tighter, treaty restricting many kinds of industrial dumping at sea.

Meanwhile, the US Superfund legislation on cleaning up contaminated land, one of the most ambitious pieces of environmental regulation yet passed, is soon due for re-authorisation. Superfund's critics argue that full compliance could cost the private sector \$500bn (£342bn) and the government's defence and energy departments, and that overhaul of the rules is urgently needed.

This legislative effort on solid waste tends to be greatest in developed countries. For these parts of the world, air and water pollution can seem more pressing - a ranking of priorities acknowledged by the Chinese environment ministry, for example.

Yet although much regulation has been in the pipeline for years, recession in industrialised countries has made industry more reluctant to pay. It has stimulated questions as to whether the rules will really protect the environment and whether the price being asked is too high.

Putting numbers on the size of the world's waste problem is difficult, partly because defining waste

Bronwen Maddox examines the debate surrounding waste disposal around the world, in the first of a series

# Politics ahead of science

Landfill pricing (per tonne)

Country	Range
France	£20-36
Germany	£40-60
Italy	£40-60
Finland	£14-29
Netherlands	£26-70
UK	£8-18
Spain	£2-10
Sweden	£10-43
Australia	£3.50-12
New Zealand	£12-18
US	£10-44
Latin America	£2-4
SE Asia	£1.50-5

\* Municipal solid waste

Composition of municipal waste 1990 (%)

	Paper and cardboard	Plastics	Glass	Metals	Food and garden	Other
US	38	8	7	8	25	14
Japan	38	11	7	6	32	6
France	31	10	12	6	25	16
Spain	20	7	8	4	49	12
Sweden	44	7	8	2	30	9
UK	37	10	9	7	19	18
Hungary	22	6	6	5	-	61

Source: OECD/Industry estimates

is no trivial question. Proponents of waste-to-energy - incineration of rubbish to extract heat - argue that much household rubbish can be regarded as a raw material. What is waste at one time can be re-exploited later - witness the growing practice of washing east European slag heaps to extract more coal.

Occasionally problems of definition lead to farce. Polish steel makers have suffered shortages of steel scrap to melt down because Polish scrap has been exported to earn hard currency, but imports of scrap have been restricted because it was defined as waste, steel industry companies say.

Nevertheless, OECD figures suggest that municipal waste grew at between 1.2 per cent a year during the 1980s, slightly behind growth in GDP. Recession slowed that growth, but European waste companies expect the rate soon to resume to that of the last decade.

Figures also point to a second problem: the growing proportion of plastics, which contain complex chemicals, sometimes toxic, that

make them hard to recycle. In the past 15 years, the proportion of municipal waste made up of plastics has risen by several per cent in most OECD countries to between 8 per cent and 15 per cent, largely at the expense of glass.

Countries are now weighing up a range of solutions for tackling these trends. One vocal lobby says that

**The enthusiasm for recycling shows how politicians' impulses can lead to rules which are damaging**

waste disposal costs (and energy costs) should rise steeply to encourage companies to use resources more efficiently.

Companies acknowledge that this works: ICI, the international chemicals group, says that its paints division has cut its waste by more than half in the past four years because of tighter regulation.

But economists, such as Dieter Helm, director of Oxera, the Oxford-based forecasting group, argue that measures like these simply produce a one-off shift in behaviour, and avoid longer term questions of picking the right waste strategy.

The main options, once the waste exists, are recycling, incineration, burying it or dumping in rivers and the sea. The tendency of regulation in the past few years has been to encourage each country - sometimes each company or town - to deal with its own waste. In particular, that has cut down the opportunities for dumping at sea, one of the cheapest outlets.

But many argue that these strategic decisions have not been taken on the basis of scientific evidence. The UK government, which last month signed the London Convention against dumping radioactive waste at sea because of "the weight of international pressure", argued that "scientific evidence shows that dumping at sea under controlled conditions causes no harm to the marine environment".

However, at home, its own enthusiasm for recycling has come under similar attack. NAWDC argues that while recycling aluminium cans saves energy, recycling plastics does not - a conclusion which Dow Chemicals supports.

According to Webb: "Politicians concentrate on household waste because people like to be told to recycle." But household waste makes up only 20m tonnes - around a seventh - of the total, including industrial and commercial waste.

The consequences of shaping complex regulation with too little regard to the underlying science are serious, however: an extra burden on industrial costs that could harm competitiveness.

True, the sharp differences in landfill costs between countries (see table) are partly the result of local geography. In the Netherlands, fears of polluting the water table mean that landfills are scarce while in the UK, geology and extensive quarrying for building materials have left a large number of suitable holes to be filled in, and landfill absorbs around 85 per cent of waste.

But the disparities are also due to the strictness of regulation. Waste companies this week warned the UK government that its proposed waste management rules could add a third to landfill costs, and proposals for a EU landfill directive would have an even greater impact.

Perhaps the best example of the difficulty of judging the impact of waste regulation is the German packaging recycling scheme. The mandatory recycling targets pushed Duales System Deutschland, the scheme operator, into near-bankruptcy and mounds of unwanted paper and plastics were sent across the German borders.

Politicians have appeared tolerant of the environmental lobbies, which have gradually ruled out cheap ways of disposing of waste. But the enthusiasm for recycling in particular shows how their impulses can be too easily led to rules which are expensive and even environmentally damaging.

David Pearce, a leading environmental economist and former adviser to the UK government, points out aptly in his recent book, *Blueprint 3 - measuring sustainable development*, that waste disposal is an area where governments have been particularly poor in weighing up costs and benefits. The risk, he warns, is that their strategies lead to inefficiency and a waste of resources.

Some of the legislation in the pipeline - in particular the EU packaging directive - offers a chance to remedy those flaws. But in general, waste management is a case of politics running too far ahead of economics and science.

Next week's article focuses on Japan.

## Buddhists clash with hoteliers

Emiko Terazono on efforts to preserve Japan's ancient capital

Walking through the dark wooden gates of Kouryūji, Kyoto's oldest Buddhist temple, visitors are greeted by a sign politely refusing entry to those staying at the Kyoto Hotel. This temple is one of 1,600 in Japan's ancient capital embroiled in a longstanding row with the city's oldest luxury hotel. The Kyoto is being rebuilt into a high-rise structure due to be completed this summer.

For the past three years, the Kyoto Buddhist Association has been protesting that the height of the new hotel - 60m - could detract from the skyline of the ancient religious and cultural city.

"Of course we can't really check where people are staying, but it's our way of standing our ground," says Chikou Kiyotaki, Kouryūji's chief priest.

The Japanese are destroying with their own hands even what the Americans chose to preserve," he says, referring to the decision by the US air force during the second world war not to bomb Kyoto's numerous temples and gardens.

In 1988, restrictions on the height of buildings in Kyoto were eased from 45m to 60m in an effort to boost development and investment. But Akira Nakajima, a lawyer and leader of a group of residents against the urban development of Kyoto, says the height restriction had protected the view of the mountains surrounding the city.

The Buddhist monks lost a lawsuit against the hotel in 1992, but have continued to apply pressure. They have been calling for the disclosure of the city's approval procedures for buildings. Last year the city council announced new construction laws to protect certain areas around historic foundations.

Meanwhile, the city's efforts to revitalise the industrial area south of the city, including the reconstruction of Kyoto station, have met with controversy.

Kyoto's business community regards the new station as the main celebratory project of the city's 1,200th anniversary this year. The city council and local businessmen asked seven leading architects, including the late Sir James Stirling and Peter Busmann, to submit designs for the station.



Chikou Kiyotaki standing his ground

A 400m-wide by 60m-high glass and concrete avant garde structure designed by a Japanese architect was chosen.

Norihisa Taniguchi, managing director of the station planning company, says the building, which will be completed in 1996, will become the new symbol of the city - the "Eiffel Tower of Kyoto".

The group in support of development in central Kyoto claims residents have the right to a normal city life. "People don't want to live in old wooden houses and become victims of construction restrictions," says Takeshi Tanaka, managing director of the Kyoto Hotel.

He claims the city is experiencing a population drain, especially with university campuses moving out due to building height limits, taking the students with them. Nakajima argues, however, that development in the city is driving people away, adding that it should "not be just about building high-rise buildings". He says the city planners of Kyoto lack a comprehensive vision of what the city should look like.

Although temples around the foot of the mountains surrounding the city have remained unscathed, many in central Kyoto have not. The wave of urban development during the economic "bubble" in late 1980s enabled developers to construct office buildings and condominiums around the small temples and shrines in the centre of the city.

Kiyotaki offers the camp a few words for contemplation: "If Kyoto ceases to become Kyoto, who will want to visit?"

## PEOPLE

### Fisons finds FD in Hankinson

Fisons has concluded the long search for a finance director by appointing David Hankinson, formerly of Ranks Hovis McDougall and Lucas Industries.

Hankinson, 54, is a well-known figure among the ranks of finance directors. He achieved some prominence a year ago when he left RHM on its takeover by industrial group Tomkins, only five months into a three year contract earning £160,000 a year. This came less than a year after he left Lucas Industries with a £352,000 handshake.

From 1989 to 1992 he was finance director at Lucas Industries and, between 1986 and 1989, finance director at Rover group holdings. He left



when the government sold its stake in the company to British Aerospace.

Hankinson graduated in law from Cambridge and qualified as an accountant with Arthur

Andersen. After 11 years there, he joined Midland bank as a financial controller and moved on, via George Wimpey, to Guthrie Corporation, his first finance director post in 1979. He worked at Wilkinsons Sword and Chloride before Sir Graham Day headhunted him to be group finance director at Rover.

Fisons has been hunting for a finance director since the early retirement of Roy Thomas in December 1993. It is still seeking a chief executive - Cedric Scroggs was ousted in December 1993 when the company issued a profits warning. "A number of candidates" have been seen and the search is continuing, Fisons said yesterday. (See Observer)

### Constructive careers

Gerald Kaye, a former director of London & Edinburgh Trust, has been appointed development director of Helical Bar, which has developed schemes planned in Cardiff, Edinburgh, Leeds, Manchester, Coventry, Guildford, Theale, Camberley, Hayes and Bristol. Kaye, 35, is a chartered surveyor who started his career at Knight Frank & Rutley where he specialised in office development consultancy. In 1986 he joined London & Edinburgh Trust, the property developer

that was later sold to SPP, the Swedish insurance group. He spent the past two years as chief executive of SPP/LET Europe, and was responsible for a £250m European investment portfolio in Austria, France, Germany, the Netherlands, Italy, Portugal and Spain.

The most recent developments he has been involved with are the 100,000 sq ft Almack House in London's St James, which was forward sold to the Dutch fund PGGM and the 88,000 sq ft development of Agriculture House in Knightsbridge, forward sold to Credit Foncier de France. Helical Bar is increasing its

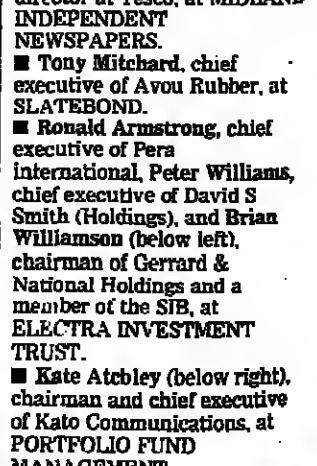
development activity with the aim of creating profits for reinvestment in high yield retail and industrial portfolios.

Terry Roydon has been appointed deputy chairman and chief executive of PROWING, he is succeeded as chairman of Galliford Homes. David Brill, md of Galliford Homes, has been appointed a director of Prowling following its acquisition of Galliford. Tony Betney, md of Galliford (UK), has been appointed to the main Galliford board. Tony Davies and Ian Franklin have been appointed directors of EBC GROUP.

### Non-executive directors

■ Sir John Banham became chairman of TARMAC yesterday and Sir Eric Pountney retired. ■ Sid Taylor as deputy chairman at BENSONS CRISPS. ■ John Rawlings, formerly deputy chairman of Morgan Grenfell & Co, at HENRY ANSBACHER. ■ Nigel Wray as chairman at CARLISLE GROUP. ■ Robert Philippe Hoogen at CALOR GROUP; Folkert Schukken has resigned. ■ Ian Stewart, former chief executive of British Ever Ready, at FINELIST, automotive parts distributor about to be listed. ■ Stuart Macdonald, the former chief executive who became non-executive last September, has resigned from THE SCOTTISH HERITABLE TRUST.

■ Anthony Fay, chairman of ERA Group and Reynolds Medical Group, at BSS GROUP. ■ Richard Westcott, a former director of Warburg Securities, at HERRING BAKER HARRIS GROUP. ■ Paul Seymour, former chief executive of Laurentian Financial Group, at MARLBOROUGH STIRLING GROUP. ■ Peter Bishop has retired from API GROUP. ■ Gareth Davies, chairman of Glynwed International, and Frances Elliott, public affairs director at Tesco, at MIDLAND INDEPENDENT NEWSPAPERS. ■ Tony Mitchard, chief executive of Avon Rubber, at SLATEBOND. ■ Ronald Armstrong, chief executive of Pera International, Peter Williams, chief executive of David S Smith (Holdings), and Brian Williamson (below left), chairman of Gerrard & National Holdings and a member of the SIR, at ELECTRA INVESTMENT TRUST. ■ Kate Atbley (below right), chairman and chief executive of Kato Communications, at PORTFOLIO FUND MANAGEMENT.



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## Theatre

## The 3 Lives of Lucie Cabrol

Watching the performers in Theatre de Complicité's current production, *The 3 Lives of Lucie Cabrol*, you can see what extraordinary performers all seven of them are. The show reveals also how well the company creates theatre in unimpeachable ways - by using movement, speech, music, lighting, props, scenery. But what is best is how all this virtuosity and variety are directed simply into telling the story. And, though the story is modern (written by John Berger), you follow this Complicité version as intensely as you read a Grimm's fairytale.

Lucie Cabrol, the story's heroine, is a tough, tiny, gnarled daughter of the soil - and an embodiment of whatever is indomitable about the European peasant spirit. Born in 1900, she lives through both world wars, working the land, and living off it. Some village men depart for war, for Paris, for the Americas, and of them a few are killed and injured. Other men stay and work the land, including two of Lucie's brothers, who betray her and finally, when she is in her 40s, turn her out. So ends Lucie's first life.

The Complicité production tells this narrative with wonderful seamlessness. We hear of wartime deaths; we see the labourers at work on the land with their scythes; and, of course, the double meaning of "scythes" strikes home. Lucie herself, as sharp and strange and aggressive as a figure from myth - Rumpelstiltskin, or Puck.

Lucie's second life is as a loner, living outside the village, selling mushrooms and berries, smuggling cigarettes at a profit, hoarding her profits vindictively. (The way we see her pluck unseen berries, from human "branches", and store unseen mushrooms in her skirts, is one of the show's brightest details.) Jean, the man who got away with marrying her, returns, and she tells him of her life. She is so tough - and so determined even now to marry him - that we think she will live forever; but no. The third life of Lucie Cabrol is as a ghost, claiming Jean from beyond the grave like some bizarre old goblin. Cathy haunting some old minor-league Heathcliff.

*The 3 Lives of Lucie Cabrol* is not a perfect show. A few elements of the story are unclear and the scenery for the finale sets up a stronger parallel to the Crucifixion than the story can sustain. The taped (very cinematic) sound accompaniment by Christopher Shutt is sometimes too intrusive and too crude. Even so, this is one of the most riveting pieces of theatre to be seen in Britain today. Lilo Baur's impersonation of Lucie has a terrific force (it played occasionally too much for effect); and, as Jean, Simon McBurney gives the most remarkable performance amid a remarkable ensemble. (No wonder, for he, with Mark Wheatley, adapted the story; and he has directed the whole staging.) Somehow he manages to be aged before his time, perplexed, sensitive, and buggable, all at the same time. While Lucie, at the climax of her stormy narration, pours out, on her knees beneath the Madonna, her angry frustrations, the most affecting thing of all is how way McBurney, sitting and watching her awkwardly, simply shifts his weight. He becomes the heart of the story and the production.

Alastair Macaulay

At Riverside Studios, W6, 081-748-3354, until April 9.



Opposite ends of the spectrum: Norman Tebbit and Austin Mitchell on Sky News' political discussion programme 'Target'; and Omar Sharif in made-for-TV series 'Red Eagle', Sky 1



Television/Christopher Dunkley

## What you see when the Sky's the limit

It is 10.30 on Saturday morning and on screen a black woman is shouting "Get yo' arse up boy!" Zap to the next channel and you find a singing cowboy. "There's a honky tonk on their edge 'o town," he means. Zap on again and you find yourself looking at a big close-up of a jewelled ring. "It's a convenient ring to wear at any time," says a woman with an estuary accent. Which ring isn't, you wonder, as you note the price: £114 plus £3.50 p.p. Flick forwards once more and you see three teenagers sitting at a table. "The Revenoo Act of 1797 was introduced to replace the Stamp Act," says one. His friend who is drinking milk through a straw laughs and the milk shoots out of his ears.

This is satellite television. The black woman is on the pop video channel MTV. The cowboy appears to be on the Discovery channel which specialises in old American documentaries, but their transporter is being shared by CMT (Country Music Television). The convenient ring is on QVC, a shopping channel which, astonishingly, you cannot watch without paying a subscription, even though its output

consists solely of sales pitches from a team of cloned presenters. The ear-trick occurs on the American children's channel Nickelodeon.

If your satellite dish, like most, points at the Astra satellite you can now receive 48 channels in addition to BBC1, BBC2, ITV and C4. Depending upon the time of day, anything between 20 and 30 of these will be in foreign languages, nearly all German, though Galavision is Spanish, JSTV Japanese, and TV Asia, which piggybacks on the transponders of Nickelodeon and Sky Movies Gold, is in various Asian languages. On most days, at times when most people are free to view, there are now 17 satellite channels delivering programmes in English.

Eleven of these are entirely or predominantly American: Bravo (old movies), Children's (many cartoons), CNN (news), Discovery & CMT, Movie Channel, MTV, Nickelodeon, Sky Movies, Sky Movies Gold and Sky 1. The services which can reasonably be called British are the shopping channel QVC, Sky News, Sky Sport, UK Gold (showing old British TV series) and the women's channel, UK Living. Eurosport is international.

About 3.5 million people in Britain live in homes which have paid to get access to these extra services, mostly via dishes, though a minority are served by cable. The main channel provider is, of course, Rupert Murdoch's News International via its satellite television outfit, Sky, in which Pearson (owner of the FT) has a significant stake. Since Sky scrambled most of its channels last summer and began charging subscriptions varying from £7 to £20 a month for different "packages", more and more people have been paying a monthly fee for this form of extra television. The smallest package costs £28.98 a year which is more than the BBC licence fee. If you take the whole Sky package the annual fee is £239.98.

Yet the remarkable fact is that the people who pay these prices still spend much the larger part of their viewing time watching the old terrestrial channels. Using the BARB figures jointly issued by the BBC and commercial television for the week ending February 13, the most recent available, it is possible to construct the following "Top 10

Channels" list based on audience share inside satellite and cable equipped homes:

1. ITV: 29.9 per cent
2. BBC1: 26.0 per cent
3. C4: 7.7 per cent
4. BBC2: 5.8 per cent
5. Sky 1: 5.8 per cent
6. Sky Movies: 3.8 per cent
7. Movie Channel: 3.6 per cent
8. Sky Sports: 2.9 per cent
9. UK Gold: 2.3 per cent
10. TNT/Caroon: 2.1 per cent

This accounts for 89.9 per cent of viewing. The other 10.1 per cent is split between the other satellite channels with Sky News, for instance, taking 1.1 per cent and the Family Channel 0.4 per cent. Thus even in homes where the satellite is available, the four old terrestrial channels take a 69.4 per cent share while the dozens of satellite channels all put together achieve only 31 per cent. Why? The fashion now among the satellite people is to argue that we should not see their channels as alternatives but merely as adjuncts. There is some strength in this where the specialised channels are concerned: viewers can be expected to dip in and out of Sky Sport or The Movie Channel and

not watch them as they might watch, say, BBC1. The same hardly applies to Sky 1, however, which set out to be a general entertainment channel capable of challenging similar channels. Yet it only manages to match BBC1's share.

The satellite does offer items unavailable elsewhere. Once you have the service in the house, Sky News and CNN quickly become your first reference points for breaking news: you do not have to wait for the fixed bulletins at 7.00 pm or 8.00. In the past week I have seen, on UK Gold, the final episode of *The Hitch Hiker's Guide To The Galaxy* which I missed twice on the BBC. On Sunday night the Movie Channel screened *The Lover*, a film which some would regard as soft porn but others might say was a non-violent *At No Corrida*. It certainly has enough explicit eroticism to ensure that the strait-laced terrestrial channels will not show it. For those who can take the tedium, the German channels regularly offer a tautonic type of *Carry On* movie featuring much lecherousness and bawling; since the dialogue is irrelevant it is no disadvantage to speak no German. And the Sky

News political discussion, *Target*, with Norman Tebbit and Austin Mitchell interrogating somebody, is nearly always good value.

Is that enough to justify the extra outlay? Almost certainly not in most ordinary homes. It is not an inspiring experience to switch to the satellite, zap through 20 or 30 channels, and find that virtually all of them are showing old American material featuring, naturally enough, American accents and American values, from guns to god.

Between 7.00 this evening and 1.30 tomorrow morning Sky 1 offers nine series, all bought second-hand from the US, and nothing else. I had hoped to be able to add that the first major drama to be commissioned by Sky 1, an adaptation of the Ken Follet thriller *Red Eagle*, screened in two-hour chunks on Sunday and Monday, proved that matters were improving. Unfortunately, although the locations and credits said "Money", this was a distressingly poor piece of work, badly directed, brimful of clichés, and badly acted.

Matters can only improve, surely.

## A Greek tragedy in Moscow

Arkady Ostrovsky reviews 'The Oresteia'

The chorus. Each actor in turn steps out of the crowd in order to play his part. The black wall sets off the appearance of Clytemnestra (Ekaterina Vasilyeva). She is the only one who never steps back into the chorus - she stands out, not only as a character, but as an actress as well.

The killing of Agamemnon and Cassandra is one of the best scenes in the whole production. According to the rules of Greek drama the killing takes place behind the black wall, inside the house. We see only the result. Soiled with blood, Clytemnestra appears on the moving platform. The dead bodies of Agamemnon and Cassandra lie at

her feet. Blood slowly streams from the platform onto the floor. Clytemnestra's monologue is accompanied by the monotonous sound of dripping blood; by the end of her speech it makes a big puddle. Vasilyeva's Clytemnestra is a mixture of goddess and barbarian. She stands, with feet wide apart in black stockings, with a tucked up skirt; her white shirt is tied in a knot. Clytemnestra has been waiting for this moment for ten long years, since Agamemnon killed their daughter, Iphigenia. She holds a sword and smiles, probably experiencing the same feeling of satisfaction as Agamemnon did when Troy fell.

For her, the killing of Agamemnon is justified and fair. After her monologue, it seems fair to the audience also. In fact, every murder in this tragedy is justified; but the pool of blood threatens to engulf them all.

Unfortunately, however, the tragedy ends when the actress disappears from the stage. All that happens after this resembles a Christmas pantomime. Athena flies like a fairy across the stage in a silver dress; Apollo appears in a laurel wreath, with a lyre in his hands; the badly made-up Furies run up and down the stage as if trying to frighten bad boys and girls who fail to listen to their parents.

All this seems totally divorced from the previous two parts. Apollo here is a trivial joker, who would hardly be capable of sending Orestes off to kill Clytemnestra since he is too busy making cheap comments about the jury and flirting with Athena. Members of the jury behave like the Russian parliament and the whole trial scene turns into a rather primitive skit on Russian political life.

Stein, in apparently deciding to "update" this great tragedy, made a mistake: Russian audiences no longer appreciate superficial political hints in the direction of the government. Paradoxically, the high tone of Ekaterina Vasilyeva's acting reveals much more about the problems of the modern world than any of the Apollo's cheap jokes.

In Moscow, then goes on tour in Germany

## Welsh head quits

Matthew Epstein, general director of Welsh National Opera, resigned yesterday, St David's Day, writes Antony Thornton.

He gave as his reason the parlous financial state of the WNO. "This year's funding decision, and those anticipated for the future, are simply not acceptable in the face of the WNO's record of international artistic success and acclaim."

Epstein, an American, led the WNO for just under three years. He recently announced redundancies and cancelled productions brought about by a deteriorating financial situation. Taken with the threats of Simon Rattle to quit the CBSO for similar reasons it will put pressure of Peter Brooke, Heritage Secretary, to raise arts funding.

## ARTS GUIDE

Monday: Berlin, New York and Paris.  
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.  
Wednesday: France, Germany, Scandinavia.  
Thursday: Italy, Spain, Athens, London, Prague.  
Friday: Exhibitions Guide.

European Cable and Satellite Business TV (Central European Time)

MONDAY TO FRIDAY  
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY  
NBC/Super Channel: FT Reports 1230.

TUESDAY  
EuroNews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY  
NBC/Super Channel: FT Reports 1230

FRIDAY  
NBC/Super Channel: FT Reports 1230  
Sky News: FT Reports 0230, 2030

SUNDAY  
NBC/Super Channel: FT Reports 2230  
Sky News: FT Reports 0430, 1730;

## INTERNATIONAL ARTS GUIDE

## BONN

Oper Tonight: Dennis Russell Davies conducts Gian Carlo del Monaco's production of Les Contes d'Hoffmann. Mon: Eva Lind song recital. March 13: first night of new ballets by John Butler and Youri Varnos, music by Carl Orff. Davies takes Orchestra on tour to the US from March 5 to 23 (0228-773667)

## COLOGNE

Philharmonie Tonight: Antoni Wit conducts Polish Radio Symphony Orchestra in works by Wojciech Kilar, Chopin and Brahms, with piano soloist Babette Hierholzer. Sat: I Musici di Roma plays baroque concertos. Sun morning, Mon and Tues evenings: John Fiora conducts Gürzenich Orchestra in Brahms, Prokofiev and Strauss, with piano soloist Hae Jung Kim. Sun afternoon: Borodin Quartet. Sun evening: Gidon Kremer and friends. March 11: London Philharmonic. March 12, Mazel conducts

Bavarian Radio Symphony Orchestra. March 13: Harmoncourt conducts Chamber Orchestra of Europe. March 16: Sawallisch conducts Vienna Symphony Orchestra. March 20: Andreas Schiffr. March 23: Alfred Brendel

Opernhaus This month's repertory includes Rigoletto with Lontina Vaduva as Gilda, Fidelio with Ben Heppner and Lisbeth Baislev. Jochim Ulrich's choreography of Peer Gynt and Harry Kupfer's production of Shostakovich's The Nose (0221-221 8400) Schauspielhaus A new production of Camus' Caligula, directed by Werner Schroeter, opens on Fri. Repertory also includes: Shakespeare's As You Like It and Günter Krämer's radical version of Fiddler on the Roof (0221-221 8400)

## DRESDEN

Semperoper A new production of Handel's Belshazzar opens on Sun, conducted by Jörg-Peter Weigle and staged by Harry Kupfer, with a cast including Iris Vermillion and Jochen Kowalski. Repertory includes Elektra, La bohème; Der fliegende Holländer and Prokofiev's ballet Romeo and Juliet (0351-484 2323)

## DUSSELDORF

Deutsche Oper am Rhein A new production of Parsifal opens on Sun, conducted by Kurt Hübner, with a cast headed by Wolfgang Schmidt and Kurt Moll. Repertory also includes La bohème and Swan Lake (0211-890 8211)

Schauspielhaus A new production of Kleist's Amphitryon, directed by David Mouchtar-Samoral, opens on Sat in the Kleines Haus. Repertory includes Shakespeare's Romeo and Juliet, Lorca's The House of Bernard Alba, and Brecht's Mr Puntila (0211-389911)

## FRANKFURT

Alte Oper Tonight: Christian Tetzlaff, accompanied by Leif Ove Andsnes, plays violin sonatas by Mozart, Ravel, Janacek and Grieg. Tomorrow and next Wed: Borodin Quartet plays Shostakovich. Fri: Ivo Pogorelich piano recital (069-134 0400) Jahrhunderthe Hoechst Tomorrow: Antoni Wit conducts Polish Radio Symphony Orchestra in works by Wojciech Kilar, Chopin and Brahms, with piano soloist Babette Hierholzer (069-360 1240) Oper This month's repertory consists of Simon Boccanegra with José van Dam in title role, Peter Müssbach's production of From the House of the Dead and Herbert Wernicke's new staging of Duke Bluebeard's Castle, opening on March 13. All are conducted by Sylvain Cambreling (069-235061)

## HAMBURG

Staatsoper This month's repertory includes a new production of Henze's Die Bassariden, conducted by Markus Stenz and staged by Christine Mieltz, and a Ring cycle with casts headed by Gabriela Schnaut, Simon Estes and Siegfried Jerusalem. Anna Tomowa-Sintow sings the title role in Ariadne auf Naxos on Fri, and Dmitri

Hvorostovsky gives a song recital on March 21 (040-351721)

## LEIPZIG

Opernhaus Tonight, Tues: Stravinsky ballet programme choreographed by Uwe Scholz. Tomorrow: Il barbiere di Siviglia. Fri: two Scholz ballets. Sat: Don Giovanni (0341-291036) Gewandhaus Tomorrow, Fri: Kurt Masur conducts Gewandhaus Orchestra in works by Tchaikovsky and Schubert, with violin soloist Sarah Chang. Sat: an evening with Peter Ustinov. Sat (Kleiner Saal): Oief Bär song recital. Sun: Philippe Entremont is conductor and piano soloist with MDR Chamber Philharmonic in works by Schubert, Mozart and Haydn. Mon: Masur conducts opening concert of 1994 Leipzig Trade Fair. Tues: Karl Osterreicher conducts MDR Symphony Orchestra in works by Richard Strauss and Franz Schmidt (0341-713 2280)

## LYON

Opéra Robert Carlen's widely-acclaimed Aix production of Britten's A Midsummer Night's Dream can be seen on Fri, Sun and next Tues. Neville Marriner gives concerts with the Academy of St Martin in the Fields on Sat and Mon, and conducts Mozart's Il re pastore on March 16, 18 and 20. James Bowman gives a recital on March 15 (tel 7200 4545 fax 7200 4548)

## MONTE CARLO

Salle Garnier Fri, Sun afternoon, next Tues: new production of

Stravinsky's Oedipus Rex and The Nightingale, staged by Petrka Innesco and conducted by Lawrence Foster, with casts including Lucia Valentini-Terrani, Vivian Cole and Renato Bruson (9216 2299)

## MUNICH

Staatsoper This month's repertory includes Lady Macbeth of Mtsensk with Marilyn Schlegel as Katerina. Madama Butterfly with Miriam Gauci and Peter Dvorsky. Der fliegende Holländer with Robert Hale and Julia Varsady. John Orsino's ballet Onegin and Peter Wright's production of Giselle. Richard Jones' new production of Giulio Cesare opens on March 21 (089-221316) Gastspiel Tonight: Ivo Pogorelich piano recital. Tomorrow, Fri: Lorin Maazel conducts Bavarian Radio Symphony Orchestra in works by Delia Piccola, Bach and Strauss. Sat: Georgina Chamber Orchestra plays Haydn, Mozart and Saint-Saens. Sun: Sinfonia Varsovia plays Brahms and Mozart (089-4809 8614)

## OSLO

Konsertshuset Tomorrow, Fri: Hiroshi Wakasugi conducts Oslo Philharmonic Orchestra and Chorus in Grieg's complete music for Peer Gynt. March 16, 18: concert performances of Beethoven's Norma. March 17: Academy of St Martin in the Fields (2283 3200)

## STOCKHOLM

Royal Opera The main event this week is the premiere tomorrow of

a new production of La Bayadère, choreographed by Natalia Makarova (repeated March 4, 5, 9, 10, 11, 24, 25, 26, 29, 30). Repertory also includes La bohème and Glen Tetley's ballet The Tempest (08-248240)

Berwaldhallen Niklas Willen conducts Swedish Radio Symphony Orchestra in two programmes this week - works by Söderman, Stenhammar and Alfvén tomorrow and Fri; Brahms, Hummel and Alfvén on Sat afternoon, with trumpet soloist Hakan Hardsenberger (08-784 1800)

## STRASBOURG

Nederlands Dans Theater presents choreographies by Jiri Kylian tonight and tomorrow at Théâtre Municipal. Andreas Schmidt sings Schubert's Schwanengesang on Sat (8875 4823) Theodor Guschlbauer conducts a concert performance of Tristan and Isolde on Sun afternoon at Palais de la Musique, with Gabriele Schnaut as Isolde (8852 1845)

## STUTTGART

Staatstheater Tonight, next Thurs and Sun: Maurice Béjart's raucous choreographic version of Die Zauberköte. Tomorrow: Don Giovanni. Fri, Sun, next Tues: revival of Achim Freyer's production of Der Freischütz. Sat, Mon: Marica Haydée's version of Glazunov's ballet Raymonda (0711-221795)



## Ian Davidson

Heads in the sand  
The UK's Conservatives should be concentrating on Europe

Mr Douglas Hurd, UK foreign secretary, sometimes claims that Britain is "winning the argument" with its European partners over the future shape of the European Union. It is not entirely clear how he reaches this conclusion. What is clear is that most of the other broadly based Conservative parties in Europe have signed up to a manifesto for this year's elections to the European Parliament which is at odds with the beliefs of the UK Conservative government.

Europe's Christian Democrats have issued a manifesto explicitly calling for a federal Europe, including a single currency and a European constitution. But even before it was published, Mr Hurd was busy assuring UK Conservatives that their manifesto would be totally different, totally British and totally non-federal.

This beautifully British manifesto is slow to appear. Not merely do the UK Conservatives not agree with those who ought to be their natural partners across the Channel, they do not agree with each other. It is not easy to draft a text which straddles the deep gulf between the Eurosophes and the relative Euroskeptics. Inside sources say the compromise version will be virtually devoid of content, because the party cannot agree a positive policy position on Europe.

One can see the Conservatives' problem. They were bruised by the interminable struggle over the ratification of the Maastricht treaty, and they are in no hurry to grapple in public with those controversial issues once more. And since they cannot fight the European Parliament election campaign on an enthusiastically pro-European platform, they will try to fight it on an enthusiastically anti-Socialist platform.

"We must avoid a debate about 'Europe - right or wrong'," says a party intellectual. "Therefore, we must engineer a debate about 'Europe - right or left.'"

This will be a difficult trick to turn: the campaign is more likely to turn on the unpopularity of the government at home than on any European issues. But even if it succeeds, it might not be to the advantage of the Conservatives.

The paradox is that Europe's

Socialist parties once fiercely combated European integration as a big business ramp. But they have come round to thinking it may have something for them after all, in the form of quasi-Socialist palliatives, such as the Social Chapter of the Maastricht treaty, or a strengthening of democracy at the European level.

Most British Conservatives, by contrast, seem to have a deep aversion to the Europe that is emerging, and are consequently unable to come up with a creative approach to the

**They will soon have to face all the Maastricht issues again, and stakes will be higher**

opportunities it offers. This is a great pity. Not because any great European issues will be decided by this year's election campaign to the European Parliament, but because history is thundering down on us, and the Conservatives will not be able to deal with it by averting their eyes.

They want to forget all about the Maastricht treaty, and pull the bedclothes over their ears. But in the 1995 review conference, which is less than two years away, they will have to face all the Maastricht issues once more, and by then the stakes will be much higher.

Take the plan for economic and monetary union. Mr John Major, UK prime minister, says it is as illusory as a rain dance. But by the 1995 review conference, it will be clear that a large central core of the Union is still determined to go for a single currency, and it will not be deterred by the reluctance

of the also-rans. What will the Conservatives say then? They do not know; they merely hope it cannot happen; but that's not a policy.

Or consider the Maastricht project for a common foreign and security policy for Europe. The UK's Conservatives want to put brakes on it, in the belief that they can hang on to the old familiar ingredients of British foreign policy: national independence, the alliance with the US, and the integrated NATO organisation. Unfortunately, the world is not like that any longer.

In the US this week, Mr Major has been trying to resurrect the "special relationship", and President Bill Clinton has been touring with some friendly TV exposure and an overnight stay in the White House. But recent events belie these flattering gestures.

When the US president gave a temporary visa to Mr Gerry Adams, president of Sinn Féin, it was not to advance the peace process in Northern Ireland; it was to advance domestic support for his healthcare programme in the US. Mr Clinton does not care about a 400-year-old colonial conflict in Ireland; why should he?

Or take Bosnia. After the mortar attack on the Sarajevo market, the US president virtually threatened a diminution of US support for Europe's defence if Britain did not agree to the new policy of bombing the Serbs. Since the US has hitherto done its best to keep well away from any engagement in the Bosnia conflict, and shows no sign of being prepared to get more deeply engaged in the future, his warning can only be taken as a disturbing indicator of the depth of his administration's commitment to Europe.

This might not matter if we could look ahead to a long era of peace and sunlit security. In fact, events in Russia and some of its neighbours make it much more likely that we are facing a period of profound instability, and possibly danger. If President Clinton prefers to lead the western alliance from behind, in the case of a localised civil war in Bosnia, what will be his attitude in the event of bigger disturbances further east? We may not know the answer to that question. But a prudent politician would surely be looking for an insurance strategy in Europe, not begging for reassurance in a fading "special relationship".

Last week, US supermarkets received the first deliveries of milk produced by cows which had undergone a new form of hormone treatment that greatly stimulates milk production.

The hormone, known as bovine somatotrophin (BST) and developed by Monsanto and other chemical companies at a cost approaching \$10m, is a manufactured version of a naturally occurring hormone. Marketed under the name Posilac, it has been hailed as an important advance in bio-engineering. According to the US Food and Drug Administration, milk and meat from cows who have been treated with it are safe and virtually indistinguishable from the normal product.

But these benefits have not prevented BST being swept up in a storm of controversy in the US as well as the European Union, where a ban on its use must be reviewed later this year. Fears about the hormone centre not just on the possible health effects, but also on the damage that a sudden surge in milk production could do to the subsidy-laden agricultural economies of Europe and North America.

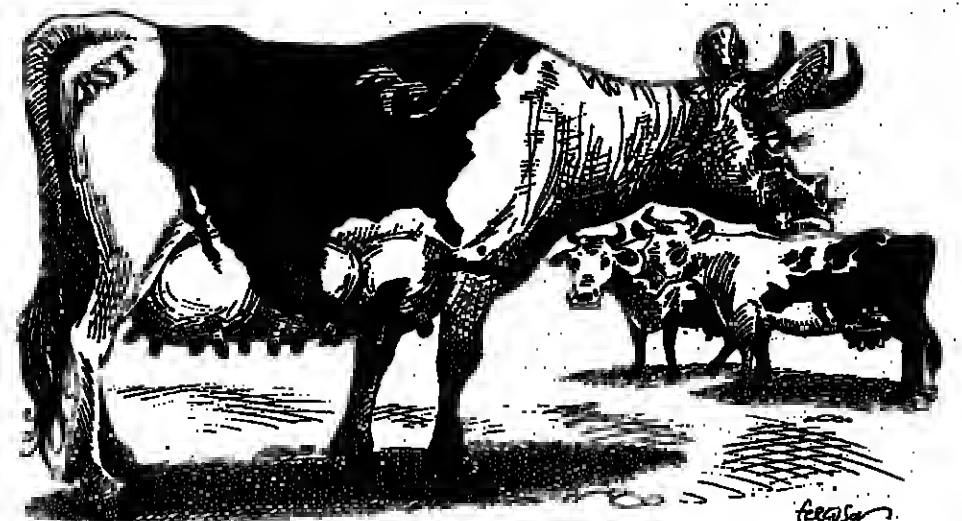
Use of the hormone in the US was finally approved last November after decades of study and debate. At the same time the White House ordered a study of the potential impact on a market already struggling with milk surpluses. This showed that BST could boost US milk production by 1 per cent a year over the next six years. Unless BST triggered a big change in milk consumption patterns, the US government would be obliged by its dairy support programme to buy up almost all of the additional production at a cost over five years of more than \$500m, an increase of 40 per cent in its annual dairy outlays.

Although farmers who are quickest to use the drug would enjoy a short-term profit boost, the study suggests that, as a result of larger and fewer dairy farms and increasing rural depopulation, the net economic effect over five years would be to reduce farm income by 1 per cent and shrink dairy herds by up to 30 per cent. Nor would the consumer benefit, because the subsidy payments would ensure that the retail price did not fall noticeably.

Resistance to BST has been building up for some time. Consumer and farm groups, led by Washington-based activist Jeremy Rifkin who heads the Pure Food Campaign, have

A milk-boosting hormone is causing controversy, write Laurie Morse and Alison Maitland

## Transatlantic row over a sacred cow



staged protests and milk dumpings throughout the US. Ms Robin Donihitt, professor of consumer science at the University of Wisconsin, says that, while other bio-tech projects aim to produce a better tomato or a tastier potato, BST-treated milk brings no benefit to consumers; and because BST-treated milk is perceived as unnatural, it is seen as adding risk to a product generally considered as pure.

Fearing a consumer backlash, nearly 200 US food companies, including large grocery and convenience store chains and 14 dairy co-operatives, have asked their suppliers not to deliver hormone-enhanced milk for three months to give them a chance to assess the market impact. In the two top dairy states, Wisconsin and California, six school districts have asked that milk delivered to their cafeterias come from untreated cows.

However, consumers have few ways of ensuring that the milk they receive is from BST-free herds, and the US government, keen to support biotechnology, is making it difficult for processors to label their milk free of artificial hormone treatments by requiring them to prove their claims with detailed documentation. Mon-

santo is also suing two small dairy processors for using a BST-free label and has sent warning letters to others.

The launch of BST in the US raises doubts about whether the European Commission can continue to resist its use in Europe, where it is the subject of a four-year-old moratorium. Its use could also erupt into a transatlantic trade dispute, highlighting the potential clash between the ethics of

**BST has been swept up in a storm of controversy in the US and the EU**

food production and the pressure for unrestricted commerce under the new General Agreement on Tariffs and Trade.

"The European Union emphasises quality, wholesome products rather than quantity," said a Commission official. "We're stronger on that than the US. The US tends to be more geared to market forces, competitiveness, economies of scale and technological innovation."

Brussels has no quarrel with the safety of BST for human

consumption, but it is concerned about its use on environmental and economic grounds. It believes that consumers would see dairy products from cows injected with BST as adulterated and would respond by cutting down on all milk products. A German survey showed that dairy consumption would drop by 11 per cent if BST were introduced.

Mr Steve Emmott of BST Concern, a UK campaign representing farmers, environmentalists and animal welfare groups, says: "This is the first flagship of the biotechnology industry coming to the market. But we don't think BST is a useful way of using the technology... It's a product no one wants or needs apart from the manufacturers. We don't need surplus milk. And we don't need milk with genetically engineered hormones."

Until recently, Mr René Stelchen, the agriculture commissioner, indicated that BST-produced dairy goods would not be allowed into the European Union while the moratorium remained in force. But US officials say any such ban is likely to be challenged, just as the US fought the EU's 1989 ban on imports of US meat produced with growth hormones. US dairy exports to the EU

amount to only \$45m a year. "But it's an issue of principle," said a US official. In any case, the US will have greater access to the European market for its dairy goods under the Gatt agreement.

The Gatt view is that an import ban would be difficult to justify, because products may in future only be challenged on strictly scientific criteria as opposed to social or ethical considerations.

However, the matter does not stop at an import ban. The White House report suggests that the US might challenge any extension of the EU moratorium. "For countries to ban BST use, after the hormone has been scientifically found to be safe, would undermine efforts to eliminate unfair trade barriers to US exports," it says.

At the end of the year, farm ministers must decide the future of BST in Europe. Last December, the Commission lost its battle to keep the moratorium on BST in place until 2000. The ministers agreed only to extend it until the end of this year, saying they wanted to monitor its impact in the US, the trade implications and the effect on European competitiveness.

To strengthen its hand, the Commission has assembled a long list of arguments against BST. It says that using the drug is not compatible with Common Agricultural Policy reforms designed to reduce milk output, and is likely to accelerate the trend towards bigger and fewer dairy farms and to lead to more cows being slaughtered and more beef cattle raised instead, adding to the beef mountain.

US officials counter that, if fewer cows are needed to produce a given amount of milk, BST helps the environment by cutting manure and methane production and the amount of water, land and chemicals used. They say a small well-managed farm could benefit as much or more from BST use as a big, poorly managed one. However, the Commission is polishing up a new weapon in its armoury to keep the moratorium going. It argues that guaranteeing its dairy products free of BST could give the EU a competitive advantage over US exports - and even a chance to charge a premium - in world markets where BST is either not used or not appreciated such as in Japan.

"We didn't think of that," admitted a senior US agriculture official ruefully.

## ADVERTISEMENT

## Privatization in Hungary 1993

This article is authorised by the State Property Agency

When last year ladies and gentlemen of a mature age rushed the Budapest Stock Exchange with compensation notes in hand, many had thought that it was merely the successful action of an old illustrious company, Zalaakerámia. At the time, as yet, almost insolvent market the demand for shares was raised by selling them against compensation notes. On the other hand, the unexpected Zalaakerámia boom was attributed to the favourable price. The boom, however, continued uninterrupted, and reached its peak last December, when during just a couple of days the shares of Primagáz, the first gas service company launched on the Stock Exchange were subscribed. Pick was sold out, and also the Globus shares were speedily bought up against compensation notes. Within two or three weeks practically the complete package changed owners at a multiple price and the shares of Pick Salami Factory yielded an eight-fold profit.

1993 was the year of success for privatization - stated Tibor Pongrácz, Secretary of State, President of the State Property Agency, and the Board of Directors of SPA. Against foreign currency worth twenty five billion Forints, about 250 million US Dollars, foreigners bought shops, business shares and shares of the Hungarian companies offered for sale. At the same time this was the first year, when local investors had become increasingly important, having purchased 15 billion Forints, i.e. 150 million US Dollars worth of state assets, and just somewhat less, 13 billion Forints, i.e. 130 million US Dollars were given in the form of compensation notes for proprietary rights. Hungarians borrowed 210 million Dollars worth of various credit lines, and in total 779 million US Dollars worth of state property was sold.

It had been a year of success - the brokers also agreed, who realise a never before credited turnover in compensation notes transactions, believed to be worthless for a long period. The news of the bullish market in December so far restored confidence in compensation notes, that long queues can be seen in front of Hungarian post offices. Everybody able to do so, tries to utilise the opportunity made available again on February 15th and submits their claims for compensation. In order to buy state assets for the compensation notes obtained. Compensation for harm suffered in the past can be obtained for one more month. It seems, however, that the present profit is more important than past injuries. It is worth exploiting the opportunity, as there will be a supply to buy against the compensation notes. In the opinion of stock exchange experts, the privatization appearing at the bourse aroused from its winter dream the stock exchange struggling under the excess weight of state bonds. It also showed the small investors the road leading there; they had previously deposited their money at the banks looking at the interest only. Now, today, the concept of exchange gain - of yield is not unknown to them either.

Still, the brokers are not happy, because in their view the market is too volatile at present, and also the institutional investors are absent. The bulk of the turnover is made by foreign investors, who from the West and East equally use their money at the Hungarian Stock Exchange in the hope of high exchange gains.

Last year the Hungarian privatization policy primarily aimed at mobilising the local market players, avoiding at the same time discouraging foreigners. The supply matched these objectives, as the foreign, financially strong investors were essentially interested in the companies of the telecommunication, oil and food industry, while the Hungarians slowly bought companies and factory portions in the small and medium category.

The ownership conditions changed radically in past years, and more than one million people have acquired

property in one form or another. Almost three hundred thousand people claimed land, more than one hundred thousand new shareholders watch news of stock exchange quotations. They are the people who bought shares in 23 state-owned companies against compensation notes, and exchanged about 6 billion Forints worth of compensation notes for shares. People were allowed to win - brokers say: but this year's prices are mainly dependent on what kind of firms are being offered in exchange for compensation notes.

Last year the Hungarian phone company, Matáv, enjoying a monopolistic position, was sold for a record price. This year, however, the Hungarian major banks will follow. There are few who dispute that the Hungarian financial sector can do with foreign capital injection.

And the client and loan consolidation schemes have made Hungarian financial institutions desirable targets this year.

The biggest expectations are focussed on the small investor share purchase programme (KRP) to be launched in March. Under this programme Hungarian citizens can get a loan if not free, under extremely favourable terms and conditions worth about 100,000 Forints, i.e. 1000 USD, which sum is repayable later, in order that they can buy shares of selected companies. The aim of the government is to assist those left out of everything else to become owners. Those who do not have money and are not entitled to compensation, and thus were watching Hungarian privatization from outside. About 10 billion Forints, i.e. 100 million Dollars are allocated for this purpose, and according to preliminary information shares offered would include not only bank shares, shares of the Sopron Brewery, but also of the Hungarian oil monopoly, MOL Rt.

Last year 404 companies passed from state ownership to the private sector and a smaller or larger portion of a further 185 companies was sold. Privatization affected state assets worth about 280 billion Forints, that is c. 2.8 billion US Dollars. In companies where SPA is shareholder, the share of foreign investors somewhat exceeds ten per cent, Hungarian investors own 17.3 per cent, local governments have a stake of 5.75 per cent and the rest is still a part of the SPA portfolio.

The future fate of privatization is largely dependent on how much the depreciation of state assets, the bankruptcy of companies can be prevented. Last year about 67 billion Forints, i.e. 670 million US Dollars were spent on improving the operating conditions of state-owned companies.

State Property Agency  
Budapest  
Pozsonyi út 56  
H-1133 HUNGARY

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Competition forces radical restructuring at British Gas

From C.H. Brown

Sir, Your article (Lex, February 25) misses one fundamental point. British Gas has now lost 78 per cent of the firm on track market and, since August 1992, 33 per cent of the market between 2,500 and 25,000 therms.

In total this now represents a loss of 41 per cent of the market open for competition, compared with a Monopolies and

Mergers Commission target of 45 per cent.

Furthermore, the company is prevented from defending its position because the playing field is artificially tilted against it. Finally, from 1998 onwards competition will be introduced to the rest of the market below 2,500 therms.

The company has taken firm management action by restructuring the business to

enable it to compete effectively in these significantly changed circumstances. Clearly the market has changed dramatically and British Gas has changed rapidly to adapt. It is disappointing that your article appears to treat a serious situation so superficially.

C.H. Brown,  
British Gas,  
Rivermill House,  
London SW1

## Democratic right of Swiss

From Dorian Sels

Sir, As a Swiss citizen I felt rather uncomfortable reading your article, "EU up in arms over Alpine truck ban" (February 22). The Swiss people decided in a democratic vote to ban trucks from travelling through the Swiss Alps. That the EU now threatens Switzerland with retaliatory measures leaves me with the impression that the EU does not respect a result of a democratic decision.

This position will not make it easier for the new candidates (all rather small countries) to join the EU since, under the Maastricht treaty, decisions such as that taken in Switzerland would simply be overruled by an institution with weak democratic foundations. But different opinions are also held within the EU. The former environment minister, Carlo Ripa di Meana, said he hoped this was "not an isolated case but a turn of the trend" in European transport policy.

Dorian Sels,  
45E Jute Street,  
Aberdeen AB3 3EX

## PIA must tackle causes not symptoms of bad practice

By Mr Ben Goh

Sir, It is inevitable that there will always be those who oppose change. Change can upset the status quo and threaten vested interests. The PIA's birth pains have hardly started yet. Speaking as a compliance practitioner, the publication of the PIA's prospectus and how it intends to act as a regulator marks a significant milestone in the PIA's quest for recognition as the self-regulatory organisation by the SIR.

A major hurdle for the PIA to clear to gain credibility is how it proposes to tackle the causes rather than treat the symptoms of bad practice. One of the key issues is product bias, which a commission-based remuneration system produces, particularly since Lantoro's maximum commission rules have been abolished. Product bias, if allowed to proliferate unchecked, threatens the core on which financial services regulation is founded - treating the client's interests as paramount even where

there is a conflict of interest. Given the choice, it will require a perfectly altruistic adviser or salesman to recommend a product that earns him less commission but is more suitable for the needs of the client. I suspect that in practice a "smart" adviser or salesman is likely to choose the product that will earn the highest commission possible and proceed to make a convincing case for recommending the product to the client.

If the PIA truly marks a new dawn, it must waste no time in tackling the causes of bad practice that is highly damaging to the reputation of the industry. If it can do this efficiently, then it should be able to face the future with equanimity and confidence. The pains and upheaval caused by its birth would have been a price worth paying.

Ben Goh,  
partner,  
Compliance Matters & Co,  
No 1 Oxman Lane,  
Milton Keynes MK12 6LG

## Exec options that reward

From Mr David Ogden

Sir, I have been following your recent reports on executive share options and believe a central point has been overlooked: the benefits to companies of this type of plan. Executive options can attract, retain, reward and motivate key employees at no cost to the company's profit and loss account and with no risk to the company or participant. The cash flow benefits of options can be particularly important in smaller, growing companies that need to reinvest cash. They can use options to attract high-calibre executives who are prepared to take a lower salary and the chance of share option gains.

Much of the recent criticism has been directed at the excesses of some option plans, neglecting the suitability of well-designed plans with allocation policies that have been given sufficient thought. Restricted shares may be appropriate in some cases but they have to be paid for out of profits and the gain is linked to the share price in the same way as an option gain. If the share price falls, the participant will not lose money. With an option, on the other hand, the share price has to rise for him to gain.

If the company follows the guidelines of institutional investors, the dilution effect of issuing new shares on the exercise of options is very small - only 5 per cent of the company's share capital can be issued for executive options granted over 10 years.

David Ogden,  
Sedgwick Noble Loundes,  
Norfolk House,  
Croydon, Surrey CR9 3EP

## Unitary authorities should not be forced on public

From Ms Josie Farrington

Sir, John Authers is right to point out "Lack of consensus plagues council shake-ups" (26 February). I would like to clarify the Association of County Councils' position.

Where local people prefer the present structure they should be allowed to do so, and all available opportunities should be taken to make that structure work better. New unitary authorities should not, as the

Local Government Commission has said, be forced upon a public which does not support them. When asked to make choices, more people have cited a positive preference for the status quo. The recent judicial review successes of Derbyshire and Lancashire County Councils mean that the status quo is a firm option. Change should only be proposed for any area with the full agreement of local people fol-

lowing a thorough review and consideration of the options. Your article assumes this case has been made in more areas than it has. In our view the review of local government should be conducted on a flexible and pragmatic basis.

Where the case for change is made and locally agreed, the ACC believes that unitary authorities need to be large and powerful enough to have effective strategic capacity;

they should also be able to avoid the unaccountable joint arrangements which would recreate a worse two-tier system. Small unitary authorities without any other tier between themselves and national government would lead to a fragmentation of local government and its main services.

Josie Farrington,  
Association of County Councils,  
Luton House,  
Luton SW1W 9BH



## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Wednesday March 2 1994

# Tackling the settler problem

The Middle East has taken important strides towards greater stability in the past three years and it would be criminal folly to permit the act of one extremist to undo much of what has been achieved. The peace negotiations between Israel, the Palestinians, Syria, Lebanon and Jordan must continue despite the massacre at a mosque in Hebron last Friday.

But it would be politically naive to suppose that the Arabs, and particularly the Palestinians, can agree to a resumption of negotiations while passions in the Israeli-occupied territories are so inflamed. A measure of calm has to be restored, and some confidence instilled that there will be less risk of similar acts of barbarism in the future.

The greatest part of that responsibility lies with the government of Israel. Successive Israeli governments have permitted or encouraged Jewish settlers to establish themselves in the West Bank, Gaza Strip and Golan Heights, against the terms of the Geneva Convention and despite the condemnation of the world community, including the US. All recent incumbents of the White House have emphasised that they consider the settlements to be an obstacle to peace.

They become even more of an obstacle when provocatively placed in the heart of, or very close to, substantial Palestinian population centres. Baruch Goldstein, who carried out the Hebron massacre, lived in such a settlement along with other fanatics whose declared aim is to sabotage the peace process.

## Too modest

The measures announced by the government against a handful of settlers since the massacre seem far too modest to ensure a significant improvement in security for Palestinians. Less than 100 people have been banned from carrying weapons under new government restrictions. Other armed settlers, many of whom are army reservists, are still free to walk the streets of Hebron and other Palestinian towns. The risk of another Goldstein being among them cannot be ignored.

The best way of reducing that danger is for the government immediately to order the closure of those few settlements sited in

the most sensitive areas of Palestinian population, and to bar settlers from carrying arms outside their own settlement areas. Responsibility for their security must rest with the Israeli army, just as it does for the Palestinian population.

Mr Yitzhak Rabin, the prime minister, has so far set his face against such measures, but they would not lack support among an important part of the electorate, and among some of his cabinet colleagues. Neither need the closure of a few settlements prejudice negotiations on the wider settlement issue, which, under the Washington agreement signed with the Palestinians on September 13, are scheduled to begin two years after the introduction of limited Palestinian self-rule in the West Bank and Gaza.

## Act decisively

Mr Rabin, though cautious by nature, has shown in the past that he can act decisively when faced by security threats. At the end of 1992 he expelled 415 Palestinians to south Lebanon, and in July he launched a week-long bombardment of southern Lebanon which cost an estimated 125 lives and drove some 250,000 people from their homes. He might reflect that extremists from within his own community can now be seen as every bit as much a threat to the peace process as those from the Arab community.

The Palestine Liberation Organisation should equally be careful to maintain a balance in its own reaction to the tragedy. Mr Yasser Arafat, the PLO chairman, is justly concerned that security for Palestinians in the territories be improved, and the presence of UN observers, as agreed in the Washington accords, would be a useful step. But any attempt at this stage to force a more fundamental reassessment of those agreements would almost certainly be counterproductive.

The longer-term political survival of both Mr Arafat and Mr Rabin is closely linked with their ability to conclude a successful peace accord. In the short term that will be best served by Israel taking a tighter grip on its extremists, and by the two sides completing their negotiations on an Israeli troop withdrawal from much of Gaza and the West Bank.

# The Scott inquisition

Britain's Conservatives are nervous. They rightly fear the outcome of Lord Justice Scott's inquiry into the sale to Iraq of equipment that could make armaments. The affair has an uncomfortable feel to it, bringing on forebodings of the disquieting effects of a long period in office. There are unhappy parallels. Italy's Christian Democrats were suspected of links with organised crime. Japan's Liberal Democrats fell into disrepute because, after a period in which they seemed destined to rule forever, they became complacent and corrupt.

Now the spotlight is on Westminster. The charges laid against certain ministers and officials are peculiarly British. None of them is accused of seeking financial advantage. Yet if the gathering storm does break it could be more damaging to Mr John Major's administration than other recent scandals and resignations. The reputations of leading Tories, not excluding the prime minister himself, are at issue. Some have promised resign if found to have acted improperly. The essence of the indictment against them is that, in the absence of a written constitution, they have been guilty of the unthinking misuse of power.

## Ministerial connivance

The first charge relates to "public interest immunity" (PII) certificates, which invite judges to excuse the presentation of named documents in court. PII has been signed by five Conservative ministers to protect papers demanded at the Matrix Churchill trial. Executives of the company were accused of evading restrictions on exports. Yet ministers, and the security services, were aware of what Matrix Churchill was doing, and connived at it. The trial judge did not accept the PII. The defendants were released. Other judges might have acted otherwise. It looks, despite protestations to the contrary, as if Whitehall might have allowed the accused to be jailed in the interest of protecting certain documents, although many of them were not likely to damage the public interest. They were merely embarrassing.

Faced with this, ministerial witnesses have told different stories. The defence secretary said he was

obliged to sign the PII; the chancellor that he had a degree of discretion; the social security secretary that he doubted that the defendants would be found guilty. On Monday the trade secretary, Mr Michael Heseltine, said that he at first declined to sign, but agreed after the wording was amended. He stated that the attorney general, Sir Nicholas Lyell, had advised him that he must do so, but had given contradictory advice in a subsequent case. Sir Nicholas said afterwards that his advice had been consistent. It is rare for two senior members of the same government to be in such open conflict.

## Altered guidelines

The second charge is that while Lady Thatcher was in office the government secretly altered the export guidelines in Iraq's favour, but hid this from parliament. It was in relation to this accusation that Sir Robin Butler, Britain's most senior civil servant, made his celebrated remarks about the necessity for governments to divide the truth into fractions, only some of which need to be revealed. To outsiders, this seemed like Whitehall taking its omniscience more seriously than its competence might justify.

The inquiry has now run for nine months. Many distinguished witnesses have given evidence, including Mr Major, Lady Thatcher, other colleagues, and many officials. All are well able to look after themselves. None require the protection of professional advocacy as suggested by Lord Howe, a former foreign secretary and chancellor. Yet the view that heads must roll is gathering force. Sir Nicholas is the current favourite candidate for the tumbrels. Before deciding his future he will have his say at the inquiry. Unless he is unconvincing then, he should await Lord Justice Scott's report.

The judge cannot design a constitution for Britain, but he can call for a clear statement of published rules, perhaps involving some external form of appeal. Depending on his findings, a judgment will have to be made whether a change of rules, plus the possible sacrifice of one attorney general's career, is a sufficient response.

India this week altered course on the road to economic reform, abandoning the tough fiscal path it has tried to follow for the past three years, in favour of gradual structural change combined with acceptance of large fiscal deficits.

While the aim of increasing growth through economic liberalisation remains the same, Mr Manmohan Singh, the scholarly finance minister, signalled in Monday's budget that he and Mr P V Narasimha Rao, the prime minister, prefer to bypass difficulties rather than confront them. They may get away with it for a while but they could be storing up problems for the future.

The two have chosen to tolerate a higher level of public borrowing than they deemed acceptable even a year ago. They have tacitly admitted that the government, with its vast web of bureaucracy and state-owned industry, its coils of patronage, its subsidies and corruption is too big an animal to be tamed quickly.

They are gambling that the measures already taken since they embarked on reform in mid-1991 will be enough to create space for domestic enterprise to grow and prosper. If they are right, then India will have shown the world how to restructure a socialist-style economy with a minimum of dislocation. If they are wrong, they risk sending the country back down a vicious circle of mounting debt, rising inflation and declining growth.

It is possible for Mr Rao and Mr Singh to succeed: there is growing confidence in India among domestic and foreign businessmen; foreign exchange reserves are at record levels; and after six good harvests in succession, farmers are content. But the decision to take a relaxed attitude to public borrowing will make the country more vulnerable to external shocks such as a jump in world interest rates or oil prices, or a bad monsoon. Any of these could spark a surge in inflation, which is already uncomfortably high, running at 8.2 per cent a year after a recent low of 7 per cent. And no Indian government can tolerate high inflation for long, given the devastating effects of rising prices on the poor.

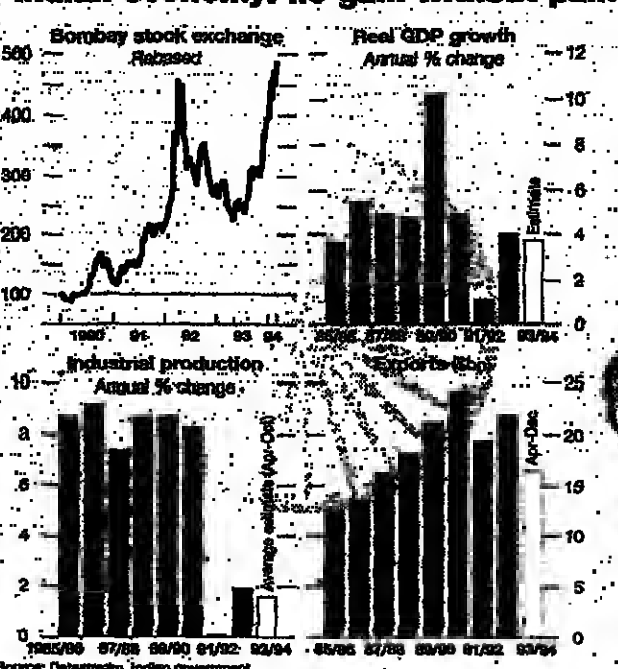
Mr Singh presented his budget as a calculated economic risk. The truth is that the calculation is as much political as economic. The ruling Congress (I) party faces several state elections over the next year, culminating in a general election which must be held by mid-1996 but could be held earlier if the prime minister wishes. A tough budget risked losing votes. As Mr Tapan Dasgupta, a leading economic commentator, says: "This budget is the political price for doing reform in a democracy."

Over the past year, there have

# Bigger burden for a stronger man

India is taking a calculated gamble on growth to offset undemanding borrowing targets, says Stefan Wagstyl

## Indian economy: no gain without pain



been many indications that the government was relaxing curbs on borrowing – the religious unrest which followed the sacking of the Ayodhya mosque in December 1992 brought unexpected policing bills; it also hit trade, reducing customs and indirect tax revenues. Nevertheless, Monday's public borrowing figures came as a surprise. Mr Singh disclosed the fiscal deficit for the year ending March 1994 would reach 7.5 per cent of gross domestic product – compared with a target of 4.7 per cent. Moreover, the finance minister set an undemanding target of 6 per cent for the 1994-95 financial year.

The government is further distancing itself from the aim it espoused in 1991 of cutting public spending in order to free resources for private enterprise. These cuts were a condition of the emergency loan India secured from the International Monetary Fund in order to stave off default in a balance of payments crisis. In practice, the government reduced the fiscal deficit greatly only in the first year after getting

the loan from 8.4 per cent to 5.9 per cent of GDP – and the deficit has been creeping up ever since.

Mr Singh is now trying a different tack – he hopes that the economy will grow, so the size of public borrowing in proportion to the economy will shrink, even if it does not fall in absolute terms. The stone will be as large as it was, but the man carrying it will be stronger.

To help stimulate growth, Mr Singh has included in his budget more measures designed to mobilise the resources of private enterprise – and to encourage businesses to become more competitive with foreign companies. Deregulation remains a central feature of government policy. As in previous years, customs duties are being cut – from a peak rate of 85 per cent to 65 per cent. Duties on capital goods and materials, including steel, are being reduced sharply to encourage industry to invest in world-class plants. Indirect taxes are being pruned to reduce their complexity and generate more competition. Corporate tax rates are coming down – as is the

income tax burden on consumers, to help boost demand.

Industrialists hailed the budget for its emphasis on growth. "It's a great budget for industry," said Mr Tarun Das, secretary-general of the Confederation of Indian Industry, the employers' body.

Mr Singh has some good reasons for feeling positive about achieving his target of increasing growth from an estimated 4 per cent this year to 5.6 per cent in 1994-95. After almost three years of slowdown induced by the 1991 financial crisis, industry is staging a belated revival. Industrial output rose only 1.6 per cent in the first half of 1993-94, weighed down by the weak performance of heavy engineering and other sectors dependent on government orders such as telecommunications. But consumer goods companies, including vehicle and electronics manufacturers, are making significant advances in output. Exports soared 21 per cent in the 10 months to the end of January.

Moreover, India is attracting record amounts of foreign capital.

An estimated \$3bn will flow into the country in the year to the end of March 1993 – up from \$585m in 1992-93. The total includes direct investment, foreign portfolio investment and overseas capital issues by Indian companies. These inflows have given India a good cushion against external shocks – \$13bn in foreign exchange reserves, enough for more than six months of imports. "It is these reserves which have allowed Mr Singh to present the budget that he has," says Mr S L Rao, director of the NCAER, an independent economics think-tank.

However the government's hopes could still be dashed if it neglects either its own housekeeping or reform. The most immediate concern is that public borrowing could rise further. "Borrowing is out of control," says Mr Dasgupta. "How can those who have let it go bring it back under control?" The pressures for wasteful spending – for subsidies and hand-outs – will increase the closer the government gets to a general election.

A more radical approach would have been to step up and extend the half-hearted privatisation programme. India has gone some way towards forcing a shake-up of its private sector by exposing it to foreign competition. But the government has balked at a similar transformation of the public sector. The government is, at least, selling shares in profitable state-owned enterprises, including the State Bank of India, the largest commercial bank, and the national oil corporations. But sales are expected to be a mere Rs25bn in 1992-93 and perhaps Rs40bn next year. Mr Rao, of the NCAER, says the buoyant stock market could absorb Rs300bn a year. "So much more could be done with privatisation. It might produce demonstrations in the streets. But so what? The government is too cautious."

Similarly, there is little indication in the budget that the government will tackle another sacred cow of pre-1991 India – a virtual ban on compulsory redundancy, which many potential foreign investors see as an obstacle.

Mr Manmohan Singh and his colleagues deny that they are going slow on reform. They point to the many useful measures in the budget and to other non-budget measures in the pipeline such as liberalisation of the insurance industry and of telecommunications. But it is difficult to avoid the impression that they are now making progress largely in directions which does not require much blood, sweat or tears. As Mr Rao, of the NCAER, says: "In restructuring, there's no gain without pain. This government seems to believe differently."

# Why UK suffers from lack of investment



PERSONAL VIEW

As the UK economy embarks on its second year of "recovery", a critical issue is how much potential slack there is in the system. Giles Keating (Letters) writes: "No evidence of narrowing output gap?" February 16) correctly points out that the total rise in employment last year was more than accounted for by an increase in part-timers and self-employed and, therefore, "the total number of hours of labour services used by the economy hasn't risen much during the recovery and may well have continued to fall".

In itself, "this is not evidence of a narrowing output gap", but a full answer to the question requires an appreciation of what is happening to the utilisation of plant and machinery, as well as labour.

The CBI industrial trends survey suggests the overall position is hotting up in manufacturing. The proportion of companies reporting their present level of output as "below capacity" has fallen from 73 per cent to 57 per cent over the last

year. The CBI research shows that, when companies respond to this question, they take account of labour and plant capacity. If labour is not a problem, yet companies report an increase in capacity utilisation, the implication is that the position with respect to plant capacity is tighter than appears from the overall measure.

This picture is confirmed by responses to another question in the survey: "What factors are likely to limit your output over the next four months?" Responses to the "skilled labour" and "other labour" categories have remained flat at a very low level over the last year. Response to the "plant capacity" category has more than doubled and is back to its 1970s cyclical peak.

The survey shows that, prior to the 1980s, a shortage of labour was the effective constraint on the economy. Now the problem is available plant and machinery, at least at current investment rates. This picture is for manufacturing alone, which accounts for only one-quarter of national output. But if there are some fundamental, economy-wide

reasons why manufacturing is "underinvesting" in this way, other areas of the economy may be similarly afflicted.

An important explanation of why UK companies may be underinvesting was highlighted by Professor Dimson and Professor Marsh (Managers' "Unhappy returns", February 9). They suggest companies have yet to adjust to the worldwide

## The biggest mistake the market has made has been to underestimate inflation

fall in cost of debt and equity capital. As a result, managements are demanding an excessive return from new investment projects and "there is a real danger that these companies will underinvest". Dimson and Marsh suggest that a company's true overall cost of capital is now in the region of 11-12 per cent (after tax), compared with the more common assumption used by

companies of about 20 per cent.

The critical issue is the appropriate risk premium to apply to the risk-free rate of return required by the market. The risk-free rate can be approximated by the yield to maturity on government debt. The conventional way of measuring the risk premium is simply to take the extent to which equities have outperformed government bonds over some historic period. On this basis, Dimson and Marsh produce 8 per cent for the risk premium, or 6.7 per cent adjusting for the fact that a company's shares are more risky than its underlying assets. However, the historic outperformance of equities will only be a good indicator of what the market requires from them if investors more or less correctly anticipated events.

The biggest mistake the market has made in recent history has been to underestimate inflation. Hence, the total real return on long-dated gilts issued in the 1960s was zero or less. Equities, on the other hand, provide more of a hedge against inflation through their ability to increase dividends. Unanticipated inflation has generally pushed the

outperformance of equities compared with gilts above that required or expected by the market.

In this case, the actual equity risk premium demanded by the market is probably a lot less than the historic outperformance of equities and, therefore, conventional practice will lead companies to assume too high a cost of capital. Indeed, the only way to make sense of current equity ratings is to assume a risk premium more like 2-4 per cent, in which case the true cost of capital is more like 8-9 per cent, less than half the common assumption.

The widespread overstatement of the cost of capital in business is enough to explain why the UK economy generally – not just in manufacturing – suffers from a lack of investment and is in grave danger of being left with a high level of "capital-shortage" unemployment.

Mark Brown

The author is head of strategy and economics at Hoare Govett Securities

## Jaffré in good Elf

■ If Baroness Thatcher were to admit to having French business heroes, then Elf Aquitaine boss Philippe Jaffré might well top the list.

His stubbornness in attempting to reverse a sharp fall in profits evinces a powerful degree of Thatcherite brinkmanship. Nor is he chary of tough decisions, even if they precipitate a diplomatic incident.

A case in point has followed his latest act, that of reducing the newly privatised French oil giant's stake in a showpiece refinery in eastern Germany. It's provoked a protest letter from Chancellor Helmut Kohl to Edouard Balladur, the French prime minister.

But Jaffré is a shrewd negotiator, whose rigorous view of profitability was refined during a rapid rise through France's banking system, culminating in the chairmanship of Crédit Agricole, the country's biggest bank.

On job cuts, however, he takes a less Thatcherite line. Jaffré rejects what he describes as the "Anglo-Saxon" method of drastic staff reductions, which have been employed at rival oil companies. Instead he talks of continual change and the need to maintain morale.

If unemployment results from the eastern German move, it won't be Elf that loses out.

## Frozen out

■ A bored Eurocrat was seen to be penning a letter during the new extended talks on extending the European Union. It's called The Nordic Bride, and sums up the state of play.

"When first we kissed, you said, my dear, that you were well endowed;

Your GDP, it was so clear, made you extremely proud. But years have passed, and now you say that you are rich no more; Our union may incur delay if you appear so poor!"

## Nutty nukes

■ Lord preserve us – how many more acronyms can the nuclear power industry come up with? Yesterday's report by the advisory committee on the safety of nuclear installations – ACSNI – for the Health and Safety Commission – HSC – drew on the advice of the radioactive waste management advisory committee – RWMAC – and the nuclear installations inspectorate – NIL. Whoa – there's more to come. The Atomic Energy Authority – AEA – now has a decommissioning and radioactive waste management operations directorate, known as DRAWMOPS.

## OBSERVER



All this should be certified by the nuclear unloading think-tank section; also known as NUTS.

## Union banker

■ A hint of uncertainty hangs over the next clutch of appointments at the Bank of England. The Court of Governors has three vacancies, following the expiry of the terms of Warburg's Sir David Scholey, Sir Adrian Cadbury, and Gavin Laird, general secretary of the AERO engineering union.

Sir Adrian says he's had enough after 24 years: Sir David has just been made a governor of the BBC,

so probably won't mind if he's not reappointed. But the trade union lobby is getting itself in a tizzy about who will replace Laird.

Since the Bank was nationalised in 1946, it's been a convention to have a trade union leader as a non-executive director. Laird was appointed in 1988 by Margaret Thatcher, no less. Given the TUC's efforts to enter the modern world, surely the government will not refuse it a job for one of its boys?

## Round the bend

■ A triumph for German unification. Forget the negative talk about soaring unemployment and chronic shortages of kindergarten places; disgruntled easterners who believe nothing has been preserved of their once prized communist state have something to boast about at last. Germany's reunited transport ministry has decided that motorists in the west will now be allowed to take advantage of a traffic regulation once found only across the border. All of Germany's drivers will now be allowed to turn right at a red traffic light, provided the road is clear.

"Experience in the new federal states (that is, east Germany) shows that the new regulation can contribute in certain circumstances to the alleviation of the traffic situation," a ministry circular intones.

If that's all the poor Osses feel

is left of their old world, no wonder the shine has started to rub off the commemorative unification coins.

## Right chemistry?

■ At last Fisons gets a new finance director. Tipped as a takeover play since a profits warning in December – coinciding with the early retirement of finance director Roy Thomas and red card for chief executive Cedric Scroggs – Fisons has nominated David Hankinson as finance chieftain.

He's been around a bit – Fisons will be his seventh job in 15 years – and tends to end up at companies which have a record of attracting the predators. Having jumped ship at Lucas, he had hardly settled into his job at Banks Hovis McDougall when it was taken over by Tomkins a year ago. Still, Fisons' shares moved not a jot yesterday, so perhaps the waters have calmed a little.

## Minim cabs

■ Hands up all who know 1994 is the Year of the London Taxi? You did? Then presumably you will be off to the South Bank's Purcell Room on April 25 to listen to the Licensed London Taxi Drivers' Orchestra perform some Mozart and Bach. No comments please about metre, direction, dud notes or such like.



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# FINANCIAL TIMES

Wednesday March 2 1994

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## Israel told to start withdrawal by April 13 or risk peace talks

By Mark Nicholson in Tunis and Julian O'Connell in Jerusalem

The Middle East peace process could collapse if Israel does not begin its withdrawal from Gaza and Jericho by April 13, the original date for completing the pull-out, a senior member of the Palestine Liberation Organisation warned yesterday.

But Mr Ahmad Qorrie, one of the chief Palestinian architects of the PLO-Israeli declaration of principles, said he believed the PLO could not resume negotiations on implementing the declaration unless Israel agreed to discuss the future of Jewish settlements in the occupied territories.

The PLO also wanted further guarantees by Israel for the protection of Palestinians in Gaza and the West Bank.

The assessment of Mr Qorrie, a senior member of the PLO executive committee, came as Israel began freeing 500 Palestinian prisoners yesterday in a further attempt to win back the PLO to peace talks after last Friday's Hebron mosque massacre. The government also offered compensation to Palestinian victims and said up to 100 Jewish settlers would be dismantled.

PLO leaders in the occupied territories said the gestures were insufficient. They added that Mr Yasser Arafat, PLO chairman, would have to stay away from direct peace talks with Israel for at least two to four weeks to assuage Palestinian outrage at the Hebron killings.

The PLO demands for peace talks to resume include the dismantling of all 120,000 settlers and the dismantling of some of

the more extremist ideological settlements such as Kiryat Arba, the 6,000-strong Jewish community just outside Hebron where Dr Baruch Goldstein, who carried out last Friday's massacre of 43 Muslims, lived.

Mr Shimon Peres, Israeli foreign minister, said Israel could meet demands such as dismantling extremist settlements and preventing their movement into some sensitive areas, allowing the deployment of an unarmed international force in the West Bank and Gaza Strip for a short period and increasing the Palestinian police force for Gaza-Jericho from 8,000 to 10,000.

However, he said the government rejected PLO demands for dismantling all settlers and dismantling some settlements.

One or more PLO leaders are expected to fly to Washington

within days to discuss with the US administration the PLO's demands. The PLO was, meanwhile, hoping the United Nations Security Council would call on Israel to accept an "international presence" in the territories.

As the release of Palestinian prisoners got underway, clashes erupted for a fourth day throughout the occupied territories.

And in a possible sign of reprisals spreading to the west, a man described as an Arab shot three ultra-orthodox Jewish youths in New York. Although he was heard to shout "Kill the Jews," police said a traffic dispute may have sparked the incident. No fatalities were immediately confirmed.

Settlements forced to top of peace agenda, Page 4  
Editorial Comment, Page 15

## Central bank expects gentle upturn as business confidence stops weakening Japan's recession may be 'near bottom'

By William Dawkins in Tokyo

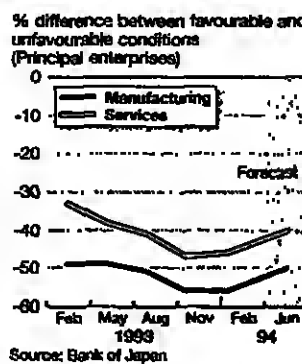
Japan could be near the bottom of its protracted recession, the country's central bank said yesterday in its latest quarterly survey of business conditions.

Business confidence has stopped weakening and the climate is expected to improve, the Bank of Japan said in its February survey of more than 10,000 companies.

The Tankan index of manufacturers' confidence stagnated at minus 56, the same as in the previous survey in November, staying at the lowest point in the downturn since May 1991. The index, which gives the percentage balance between companies reporting favourable and poor conditions, is forecast to recover slightly to minus 50 by June. Service industries' confidence, meanwhile, picked up a fraction slightly to minus 46 from November's record low of minus 47.

A "gentle" economic recovery is expected some time during the fiscal year starting next month.

### Japan's business conditions



said Mr Kagehide Kaku, the bank's head of research and statistics. The Tankan survey is the most authoritative gauge of the short-term business outlook and an important influence on monetary policy.

But several private sector economists feared the central bank was optimistic, and said a cut in official discount rates, widely expected, was still needed to

stimulate spending and investment.

If US president Bill Clinton succumbs to pressure for trade sanctions against Japan, the consequent rise in the yen would delay recovery prospects, they warned. The yen stood at about ¥109 to the dollar when the survey was taken, against ¥104 in recent days.

"Japan's economy is brain-dead. There is no pulse, but at least that is better than seeing the readings fall lower," said Mr Kenneth Courtis, senior economist at Deutsche Bank Capital Markets Asia.

"It is at least as bad as the last survey and some of the indices are even worse," said Mr Robert Feldman, director of economic research at Salomon Brothers Asia.

Conditions have worsened for small manufacturers - usually an early warning of changes in trend - where the index fell from minus 45 to minus 48. The balance of manufacturers reporting excess capacity rose from 32 to 35

while those with surplus staff rose from 26 to 28.

Meanwhile, respondents said they were planning to cut capital investment by an estimated 9.2 per cent in the current year to the end of this month, and again by 4.5 per cent next year, marking three years of decline.

There were some encouraging signs in the survey, the Bank of Japan said, but not enough to amount to clear evidence of the recovery. Large manufacturers, outside the oil industry, expect pre-tax profits to fall 29.7 per cent in the current fiscal year, the fourth year of decline, but to recover by 11.4 per cent in 1994.

Japan's suspected credit squeeze may be easing, on the strength of an increase in the balance of companies to report that banks were being helpful in their credit stance. Other good signs include a two-point fall to 30, in the proportion of large manufacturing companies with excess stocks of unsold goods. This is most marked in the consumer electronics industry.

## Croats and Moslems closer to alliance

Continued from Page 1

posals for a union of the Croat and Moslem areas of Bosnia. It would be divided into Swiss-style cantons, with some kind of economic confederation with neighbouring Croatia.

While the plan does not address the Serb-held areas of Bosnia, US officials hope it may put further pressure on the Bosnian Serbs to make peace.

The US has offered both carrot and stick to Croatia as an inducement for ending the fighting between Croats and Moslems in central Bosnia.

While threatening economic sanctions on Croatia, officials have also held out the hope of loans from international financial institutions.

In Moscow, Mr Kozyrev hailed the agreement with Mr Karadzic as a "big step" in a Russian peace initiative launched when President Boris Yeltsin persuaded the Serbs to heed the Nato ultimatum for pulling back its heavy artillery from around Sarajevo.

In a statement issued after the accord, Russia said: "This position of the Bosnian Serbs is based on the fact that Russian observers will take part in monitoring the non-military use of [Tuzla] airport."

However, Mr Karadzic admitted the talks had been difficult. He said Russia could help the Bosnian Serbs save face, although it was "difficult to find good solutions and honourable peace for all sides".

The momentum for peace is being reflected on the ground, although with varying degrees of success. Yesterday the International Red Cross secured the release of 400 prisoners in the western city of Mostar, which had been besieged by Croats for several months. The ceasefire, which began last Friday, was last night still generally holding.

The United Nations High Commissioner for Refugees also resumed aid convoys and humanitarian flights into the Bosnian capital Sarajevo.

However, Lieutenant Colonel Bill Alkman, the UN spokesman in Sarajevo, said Bosnian government forces were digging new trenches and there were reports of sniper fire.

## South African election deal

Continued from Page 1

ing reporters' questions.

"I came in high spirits. I feel very warm inside," said Mr Mbeki.

Chief Buthelezi implied that Inkatha would seek an extension of the election period - possibly by delaying the poll in the Zululand heartland Natal while proceeding with the national election elsewhere on April 27 as planned. The ANC is unlikely to accept any delay.

However genuine the commitment to seek a substantive deal, both sides were clearly keen to use yesterday's accord to avoid blame for future violence.

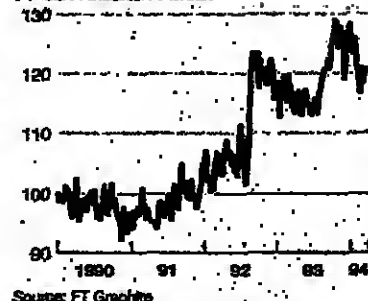
## THE LEX COLUMN

### Yielding to pressure

FT-SE Index: 3270.6 (-57.5)

#### General Accident

Share price relative to the FT-SE 100 Insurance Index



There should be more to come in the UK as premium increases already announced flow through into profits. GA's willingness to turn away motorists also suggests some sincerity about underwriting for profit at the expense of market share. Yet the bigger challenge now lies in the US and Canada, where underwriting losses amounted to \$188m last year. The US in particular will be a tough nut to crack since GA lacks sufficient weight to influence market rates.

Without a rise in insurance rates across the US market, GA can only increase premiums unilaterally even if that means losing business. Whether that will be enough to bring about decent profits remains an open question. The 20 per cent premium to net asset value at which the shares now stand demands no less.

#### General Accident

It is curious that General Accident's shares should rise against the trend of a market led lower by US bonds. True, full year profits were at the higher end of market expectations. But with almost half its assets in North America, GA is unusually geared to US treasuries. Jitters in world bond markets have shaved 2 percentage points from the group's solvency margin since the year end. With solvency comfortably over 50 per cent, GA is hardly starved of capital. Yet a dividend equivalent to 5 per cent of shareholders' funds and covered only 1.5 times by earnings is a heavy burden. Should the bear market in bonds take hold, GA might find it difficult to increase the pay-out as fast as shareholders would like.

That is all the more reason to hope that the earnings recovery continues.

#### Abbey National

Had Abbey National been determined to stick to its previous target of three times for dividend cover, its payment might not have increased at all this year. As it is, the 22 per cent increase, which is broadly in line with earnings growth, is a welcome admission that it has enough capital to be going on with and does not need to retain every last penny of earnings. The desire to avoid building up surplus capital is perhaps a signal that the bank is more interested in boosting return than in further expensive attempts at diversification for its own sake. That is also good news after its embarrassing excursions into estate agency and French commercial lending.

Yet Abbey's dividend cover of just

#### GKN/Westland

Westland's defence document is notably short on pictures of burning bridges. Perhaps that is because GKN will hold 45 per cent of Westland's shares even if the bid fails completely. So whatever the outcome, the two companies will have to live together. Yet while Westland avoided rough and tumble, it did not cede much to GKN either. The gentlemanly nature of the campaign may not be sustainable if both sides become entrenched.

Westland's defence rests firmly on prospects for EH101 orders and the possibility that the Apache will become the next British Army attack helicopter. Veterans of the 1985-86 capital reconstruction will remember that large claims were made for the Black Hawk, and the orders never materialised. Still, while there are risks in relying on projections to the year 2000, Westland's new management has a good track record. Loyal shareholders may wonder why, having waited so long, they should grab a bird in the hand now when there could be more than two in the bush. There is a case for supporting Westland, at least until it fails to meet its projections.

GKN's best point is that it could bolster Westland's strong but small balance sheet. Customer stage payments should cover Westland's working capital needs, but there is little margin for error. With Westland's shares 15 per cent above the offer, the market clearly thinks GKN is going to have to pay substantially more for victory. Whether GKN is prepared to raise its offer and its gearing enough is another question.

### FT WEATHER GUIDE

#### Europe today

The boundary between wintry conditions in the north and mild weather in the south will continue to bring overcast skies and some snow to Denmark and northern Poland. Scandinavia will be dry and sunny as high pressure moves east. A frontal zone associated with a complex low pressure system near Iceland, will give south-western Norway snow, rain and near gale force southern winds. The Benelux and western France will have cloud and rain. High pressure will keep the Mediterranean dry with sunny periods, especially in southern Portugal. Low pressure over the Balkans will produce cloud and showers, though temperatures will be quite high.

#### Five-day forecast

High pressure over Scandinavia will move further east. A westerly airflow will give unsettled but mild conditions with intermittent strong winds in western Europe and south-western Scandinavia. South-western and southern Europe will remain sunny and dry. Central Europe and, later this week, south-eastern Europe will have changeable weather with snow in the Alps and showers in the eastern Mediterranean.

#### TODAY'S TEMPERATURES

Location	Maximum	Minimum	Weather
Abu Dhabi	33	27	fair
Accra	33	27	fair
Algiers	19	13	rain
Amman	21	15	rain
Antwerp	17	11	rain
Athens	21	15	rain
B. Aires	27	21	cloudy
Bahia	27	21	cloudy
Bangkok	34	28	sun
Buenos Aires	17	11	sun
Cairo	27	21	sun
Cape Town	17	11	sun
Cebu	33	27	sun
Colombo	33	27	sun
Dakar	33	27	sun
Dhaka	33	27	sun
Dubai	33	27	sun
Hankow	33	27	sun
Hong Kong	33	27	sun
Houston	33	27	sun
Istanbul	33	27	sun
Jakarta	33	27	sun
Karachi	33	27	sun
Kuala Lumpur	33	27	sun
Lima	33	27	sun
Lisbon	33	27	sun
London	33	27	sun
Luxembourg	33	27	sun
Madrid	33	27	sun
Manila	33	27	sun
Maracaibo	33	27	sun
Medan	33	27	sun
Mexico City	33	27	sun
Miami	33	27	sun
Manila	33	27	sun
Montevideo	33	27	sun
Moscow	33	27	sun
Mumbai	33	27	sun
Nairobi	33	27	sun
Nagasaki	33	27	sun
Nassau	33	27	sun
New York	33	27	sun
Nice	33	27	sun
Osaka	33	27	sun
Paris	33	27	sun
Perth	33	27	sun
Peking	33	27	sun
Rangoon	33	27	sun
Riyadh	33	27	sun
Rome	33	27	sun
S. Francisco	33	27	sun
Seoul	33	27	sun
Singapore	33	27	sun
Stockholm	33	27	sun
Sydney	33	27	sun
Taipei	33	27	sun
Tokyo	33	27	sun
Toronto	33	27	sun
Tunis	33	27	sun
Vancouver	33	27	sun
Vladivostok	33	27	sun
Washington	33	27	sun
Wellington	33	27	sun
Zurich	33	27	sun

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# FINANCIAL TIMES COMPANIES & MARKETS

Wednesday March 2 1994

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## IN BRIEF

### Krupp-Hoesch to fight cartel office

Krupp-Hoesch, the merged German steel and engineering group, plans to fight an order by the German federal cartel office to sell part of its vehicle spring manufacturing capacity. The company said it would challenge the ruling by the competition authorities that it must sell its vehicle spring manufacturing division at Krupp Brunningshaus because of its dominant position in the market. Page 18

### Abbey National increases 25% to £704m

Abbey National, the UK banking group, yesterday announced a 25 per cent increase in pre-tax profits for 1993 to £704m (£1.1bn). The board is recommending an increase in the full-year dividend of 22 per cent to 14.0p per share. Page 18

### General Accident insurance recovery

General Accident, the highly rated composite insurer, yesterday provided further evidence of the recovery in the UK general insurance market by posting its highest ever profit figures. Pre-tax profits last year amounted to £294.5m compared to a loss of £29.2m in 1992. The final dividend was increased by 4.4 pence to 17.5p per share, making a total of 27.5p for the year (26.75p). Page 18

### NEC-Samsung plan joint memory chip

NEC of Japan and Samsung Electronics of South Korea, two of the world's largest memory chip manufacturers, plan a joint development of next-generation memory chips, expanding their existing co-operation agreements, NEC said yesterday. Page 20

### World awaits the second Chinese wave

The second batch of China state-run companies for overseas listings is likely to hit Hong Kong in July, about a year after Tsingtao Brewery, producer of the only internationally known Chinese beer, made its trail-blazing debut. Page 20

### Revival in UK fleet cars assists T Cowie

The revival of the UK fleet car market, coupled with lower interest costs, helped T Cowie, the car leasing, motor trading, bus and tractor group, post a 56 per cent increase in pre-tax profits last year to £38m. The pre-tax profit increase, from £24.3m in 1992, was ahead of market expectations. Cowie's shares closed at 331p up 7p. Turnover grew by 32 per cent to £799.5m (£805.9m) including £148m generated by the Keep Trust motor group of 18 dealerships acquired in May last year, turning Cowie into the fourth largest UK motor retailer. Page 22

### Sri Lankan planters thirst for privatisation

Sri Lanka's tea and rubber industries, two chief export sectors, have done remarkably well in the first year of partial privatisation and President D.B. Wijetunge is keen to move on to the next stage. But there are political obstacles. Page 26

### Europe's 'Most Respected Companies'

Senior European company executives are being invited to 'vote' for Europe's Most Respected Companies in a new survey by the Financial Times in association with Price Waterhouse. Business leaders will be asked to nominate companies in their particular sector based on seven specific qualities. Page 10

### Companies in this issue

ASW	25	Murray Income Trst	25
Abbey National	18	NEC	20
Admiral-Price	19	Newmarket Venture	24
Admiral	25	Nokia	17
Amottis	20	Ocean Group	19
BCI	19	Petro-Canada	24
Bank Austria	19	Radio Marconi	19
BelSouth	19	Reine	18
Brent Walker	24	Ripool	24
Bula Resources	24	Rolls-Royce	8
Bundaberg Sugar	20	Royal Bank of Canada	20
CSR	20	Sakura Bank	19
Charter Group	12	Solomon Brothers	17
Coal Inds	22	Samsung Electronics	20
Coca-Cola	19	Sanderson Elect	24
Cowie (T)	22	Scottish Eastern Inv	20
Crossroads Oils	25	Sentowong	24
Dawson Intl	24	Silentnight	24
Dormick Hunter	22	Sinclair (William)	25
Fidelity Euro Values	22	Star TV	20
Fisons	17	Star TV	20
GA	12	TR European Growth	23
GKN	19	Telefonica	19
GRE	22	Thames Water	24
Groupie Bull	17	Tribuna	24
Holical Bar	12	Valencia Cementos	19
ICL	24	Valeport	24
IMC Inds	24	Vox	19
Inveresk	23	Walshomes	22
Kelon	23	Wel-Mart	19
Kmart	23	Westland	17
Krupp-Hoesch	19	Wharf Cable	20
Leeds & Holbeck	23	Wimpey	22
		Yorkshire Water	8

### Chief price changes yesterday

FRANKFURT (DEM)					
Alcoa	890	+ 18	Alcoa	890	+ 18
Alcoa	890	+ 18	Alcoa	890	+ 18
Alcoa	890	+ 18	Alcoa	890	+ 18
Alcoa	890	+ 18	Alcoa	890	+ 18

## Growth in mobile and fixed telephone divisions restores Finnish group

# Nokia returns to profit and lifts payout

By Hugh Carnegie in Stockholm

Nokia, the Finnish telecommunications group, yesterday reported a surge back to profit as high growth in its mobile and fixed telephone divisions produced a pre-tax profit in 1993 of Fm1.15bn (€209m), compared with a Fm1.53bn loss in 1992.

It is increasing its dividend to Fm2.80 a share from Fm2.00.

However, the group, the world's second largest supplier of mobile telephones after Motorola of the US, announced it was withdrawing from manufacturing picture tubes in a bid to stem losses in its troubled consumer electronics business.

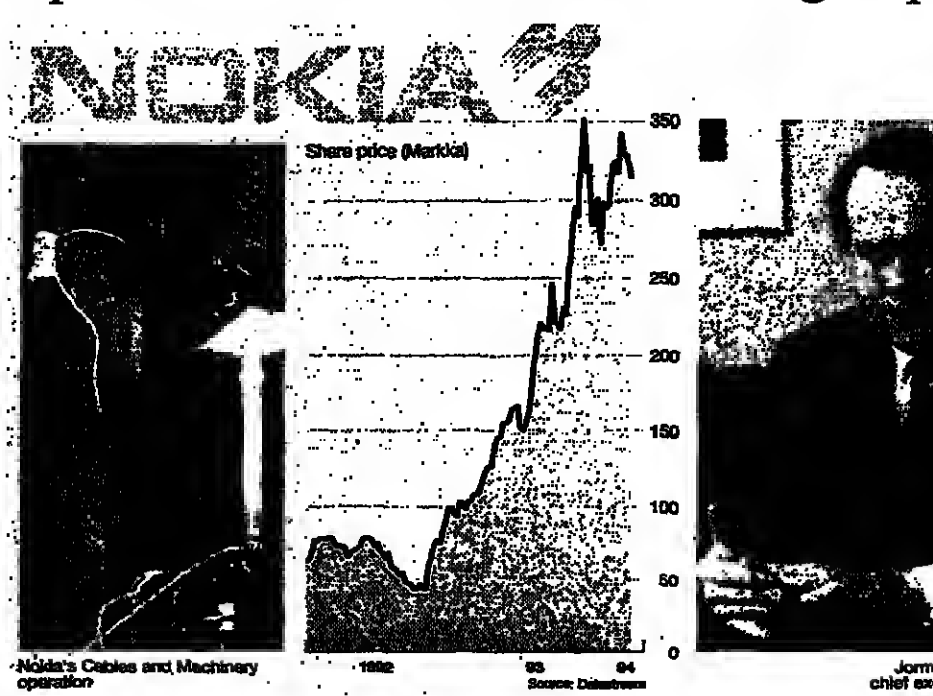
It included a charge below the line of Fm1.9bn mostly to cover the costs of the move, leaving a net loss of Fm1.15bn, compared with a net loss of Fm723m in 1992.

Mr Jorma Ollila, chief executive, said consumer electronics losses, at Fm747m in 1993, required "very forceful actions".

Efforts to find a partner or buyer for the picture tube making had so far failed. The decision to close will mainly affect Nokia's Esslingen plant in Germany which it modernised last year at a cost of Fm200m.

Nokia said it would continue to make televisions as these were important in developing interactive communications and multimedia products, but it would buy in picture tubes.

The problems in consumer electronics contrasted with Nokia's fast growth in telecommunications. Overall group sales were Fm23.7bn, compared with Fm18.12bn, while research and development costs rose to Fm1.47bn from Fm1.13bn. Operating profits jumped to Fm1.15bn from Fm283m.



Most of Nokia's activities are outside Finland and the company is applying for a listing on the New York Stock Exchange, the first Finnish company to do so.

Sales in the mobile telephone division surged 73 per cent to Fm6.3bn from Fm3.6bn. Nokia said sales of digital cellular telephones took off in 1993 and were expected to continue to grow rapidly, but it said demand for the older technology analogue systems remained strong. Operating profits for mobile telephones more than doubled to Fm350m from Fm147m.

Sales in the fixed telecommunications division grew 43 per cent to Fm4.6bn, while operating profit more than doubled to Fm933m. The cables and machinery division reported slower sales growth, pushing up to Fm4.9bn from Fm4.6bn, but operating profits here again more than doubled to Fm261m.

Nokia was confident of sustaining the rapid rate of sales growth for mobile telephones this year as it exploited growing markets, especially in Germany, the US and Japan.

## Westland attacks value of hostile bid from GKN

By Tim Burt in London

Westland, the UK's only helicopter manufacturer, yesterday dismissed a £496m (£724m) hostile bid from the engineering group GKN as "absurdly low".

The Yeovil-based company said the takeover bid, launched last month, undervalued its growth prospects and £1.4bn order book.

Launching Westland's formal defence document, Mr Alan Jones, chairman, said: "There is no logic in linking with an engineering conglomerate, focusing on the automotive and industrial services sectors. The way forward for us is through collaboration with other helicopter manufacturers."

Nevertheless, GKN remains in a strong position, having raised its existing Westland stake to 45 per cent with the purchase of an 18.7 per cent holding from United Technologies, the US parent of Sikorsky helicopters.

The Midlands-based group, which justified its bid by claiming synergy between helicopters and its own armoured vehicles division, has offered Westland shareholders 290p cash per share. The bid values the whole group at £496m.

Mr Jones claimed GKN's offer document suggested that 44p of the price related to a £288m payment due to Westland from the Arab Organisation for Industrialisation (AOI) for alleged breach of contract. This meant that the GKN offer valued Westland's underlying business at only 249p a share.

"That is equivalent to 21.4 times historic earnings, which undervalues the company. The average price earnings multiple for UK aerospace manufacturers is almost 60 per cent higher at 34," said Mr Jones.

Sir David Lees, GKN chairman, said the earnings multiple figures were "meaningless" and warned there was no guarantee that the AOI would pay the damages.

## Salomon Brothers to advise UK on debt disposals

By Tracy Corrigan in London

The UK Treasury has appointed Salomon Brothers International to advise on disposals of its remaining holdings of debt in privatised UK companies in the next financial year.

It is the first time that Salomon Brothers has been awarded a senior role by the UK Treasury since it was ditched from the second tranche of the British Telecommunications privatisation, after being involved in a US Treasury auction scandal in 1991.

A spokesman for the Treasury said it had taken the unusual step of appointing a non-UK bank because Salomon "gave us the best presentation".

The Treasury sold £1.3bn (£1.09bn) of similar debt in 1992 through a complex auction, arranged by Barings, in which 13 privatised companies were invited to bid to buy back their debt. Outside investors were allowed to compete for BT debt.

The government still holds a total of £2.66bn of the debt - £1.22bn of BT debt and £1.44bn of electricity debt - left on the companies' balance sheets at the time of privatisation. However, some of that debt is very short-dated and unlikely to be sold.

Salomon will advise the Treasury on which and how much debt to sell, and how to sell it.

In his November budget, Mr Kenneth Clarke, UK chancellor, said that the government aimed to raise £5.5bn in privatisation proceeds in the next financial year. The debt sale will allow the government greater leeway in the timing of further electricity privatisation offerings.

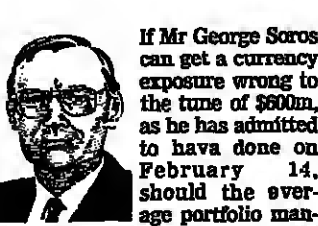
However, one difficulty in selling the debt is that, with coupons of more than 12 per cent - much higher than current market yields - it would have to be priced at a premium of around 30 per cent to its notional value, which could make it unattractive to potential buyers.



Alan Jones: 'no logic in link'

## Barry Riley

# Currency: the risk that can appear benign



If Mr George Soros can get a currency exposure wrong to the tune of \$800m, as he has admitted to have done on February 14, should the average portfolio manager be getting involved with the active management of foreign exchange positions?

There is an odd contrast here between US and British pension funds. The Americans are increasingly drawn to the separate management of foreign exchange exposures - on some estimates a quarter of US pension funds are already using so-called currency overlays. British pension funds, in contrast, are inclined to leave investments in foreign currency securities unhedged, except in unusual circumstances.

The feeling that dealing in securities counts as investment but trading in currencies is speculation is deeply ingrained. It is reinforced in the UK by the risk that currency gains unrelated to holdings of securities might be taxed as profits from trading.

There is a theoretical reason, too, why currency exposure is different. Whereas investment in, say, bonds carries a particular level of expected return (and an investment in equities brings the reward of a rather higher return, because of the risk premium) the expected return from holding currencies is zero. A currency index fund will give no return over extended periods. Although some currencies have proved to be consistently strong and others consistently weak over the long term, these shifts have been offset by interest rate differentials.

This does not mean, of course, that currency trading can never be profitable. That may happen when central banks are intervening, as happened in summer 1992. But although Soros made big gains then, he has found it much trickier in freely floating conditions and, in the recent politically volatile circumstances of the dollar and the yen.

Over short periods, investment returns on securities have a substantial currency element, as much as 40 per cent of the annual

The feeling that dealing in securities is investment but trading in currencies is speculation is deeply ingrained

leave all decisions to them, including currencies. But the currency decisions are not usually very well handled. Most British fund managers have been very bullish of the dollar throughout the past year, for instance, to no avail.

British managers are focused on equities, where the assumption has been that local market returns are inversely related to the strength of the currency: devaluation, for instance, boosts share prices. Hedging is therefore less important, especially from the perspective of a sterling investor, who is accustomed to regular currency gains in his portfolio returns.

Things look different to a bond manager. Currency returns are more easily divorced from domestic bond returns and separate management of the currency and interest rate risks is more naturally embraced. True, the returns tend to be positively correlated: weak currencies encourage fears of inflation and undermine domestic bond prices. But this is not universally true: bond prices, for instance, soared in the devaluing European countries after September 1992 because the danger of soaring fiscal deficits was seen to be reduced.

It is slightly strange that UK funds, which have an overseas exposure of some 30 per cent, are less worried about currency risks than US funds, with an exposure which may be about 6 per cent on average at present (albeit rising).

But the currency impact on UK funds, most notably in late 1992, has been perceived as benign. It will probably take a shock, in terms of large, avoidable currency losses, to trigger UK pension fund trustees into action.

## Brussels positive on Bull financing

By John Riddling in Paris

Mr Karel Van Miert, the European competition commissioner, yesterday gave a positive response to outlines of a restructuring and privatisation plan for Groupe Bull, the loss-making French computer group.

After a series of meetings with Mr Jean-Marie Descarpentries, the Bull chairman, Mr Gérard Longuet, the industry minister, and Mr Edouard Balladur, the French prime minister, Mr Van Miert said he had been "impressed by Mr Descarpentries' ideas and commitments".

During the meetings, the French government agreed to freeze a tranche of FF2.5bn (\$431m) of state aid for Groupe Bull pending the European Commission's decision on the group's recapitalisation.

The FF2.5bn is the final tranche of a FF7bn capital increase announced last year by the French government.

Mr Van Miert is due to receive a final version of Bull's restructuring plan within the next few days. He said a decision on the plan could be reached by the summer, and would not take more than six months.

Brussels' decision is regarded as crucial to the recovery of the group, which has lost more than FF15bn over the past four years as a result of depressed markets, high costs, and inefficient management.

The French government has said the capital injection is a necessary final payment to allow the group to be privatised.

Mr Descarpentries aims to reduce the state's 76 per cent shareholding in Bull to below 50 per cent this year.

He plans to achieve this through an increase in employee shareholdings and the participation of industrial partners in the company's capital. NEG of Japan, which holds 4.4 per cent of Bull's shares, is seen as a potential candidate for a larger stake in the group.

Other measures aimed at returning the computer group to profit include cost-cutting and productivity measures.

According to the plan, productivity is to be increased through the establishment of separate profit centres and tighter reporting procedures. Non-salary costs, such as rents, are to be reduced through the sale of most of the company's Paris sites.

Industry's hope, Page 3

**IBM**  
International Business Machines Corporation  
through its wholly owned subsidiary  
**IBM SEMEA SpA**  
has acquired a 24 per cent interest in and has further options to acquire a majority of  
**Information Services Group Ltd**  
(a company listed on the Johannesburg stock exchange)  
The undersigned acted as financial advisors to IBM in this transaction  
**Lehman Brothers**  
**ABSA** **Rand**  
Merchant Bank Merchant Bank Limited



## INTERNATIONAL COMPANIES AND FINANCE

# Krupp-Hoesch to fight cartel office over unit sale

By Quentin Peel in Bonn

Krupp-Hoesch, the merged German steel and engineering group, plans to fight an order by the German federal cartel office to sell part of its vehicle spring manufacturing capacity.

The company said it would challenge the ruling by the competition authorities that it must sell its vehicle spring manufacturing division at Krupp Brünninghaus because of its dominant position in the market.

An agreement to dispose of the division was an important part of the deal negotiated by Krupp-Hoesch with the cartel office in April, 1992, in order to get the go-ahead for the total merger of the two steel groups.

However, just before the deadline to do so expired in December last year, the company served notice of cancellation of the agreement, arguing

that conditions in the market had changed.

The cartel office in Berlin announced on Monday that it was not prepared to accept the unilateral cancellation, and ordered Krupp-Hoesch to sell the division, or it would appoint an independent trustee to do so on its behalf.

The office said a merger of the vehicle spring manufacturing capacity of Krupp Brünninghaus with Hoesch-Federn would raise the danger of the combined enterprise having a dominant market position. The two together would control more than 60 per cent of the market, with a turnover of between DM600m-DM700m (\$333m-\$412m).

Krupp-Hoesch maintains that because of a slump in demand for its suspensions from the motor industry, the two vehicle spring divisions between them lost more than

DM500m in 1993. It said if one of the two divisions was sold, the other could no longer survive.

"The conditions of competition in the automobile sub-contracting industry have changed so much since the original agreement was reached that there is no longer any reason to fear the emergence of market domination," according to Krupp-Hoesch.

The cartel office argues that other companies are still surviving in the industry, many of them small or medium enterprises with a much smaller turnover.

It accepts that the motor industry has reduced its orders because of the current recession.

Krupp-Hoesch will now take the case to the superior court in Berlin, although a delay of several months is likely before any decision is taken.

## Abbey National rises 25% to £704m

By Allison Smith in London

Abbey National, the UK banking group, yesterday announced a 25 per cent increase in pre-tax profits for 1993 to £704m (\$1.1bn), from £564m.

The board is recommending a dividend of 22 per cent to 14p per share.

Lord Tugendhat, Abbey chairman, said that given the good results and the good prospects for the group, the board had moved away from its earlier aim of dividend cover of three times or more, and concluded that cover of between two and three times was appropriate. The recommended 1993 dividend is covered by earnings 2.1 times.

The greatest proportional profit rises came from the group's treasury and life assurance operations, while the core UK retail banking business rose 14 per cent to £618m.

Pre-tax profit from the treasury operation rose to £145m, from £100m, while the profits from Scottish Mutual, the life assurance arm, and from Abbey National Life, which became operational only in February 1993, rose to £81m compared with £39m.

The group's continental European and offshore operations incurred a pre-tax loss of £105m, compared with a loss of £46m in 1992, largely because of the steep increase in provisions for commercial lending in France.

Provisions for the European businesses rose sharply to £98m from £47m, while provisions for UK operations fell to £11m from £227m. The sale in August of the Cornerstone estate agency featured as an exceptional loss of £30m.

Net mortgage lending rose to £3.2bn in 1993, from £3.5bn. However, Mr Peter Birch, chief executive, did not expect the group's 18.5 per cent share of the UK mortgage market in 1993 to be repeated in the coming year, and said it was likely to drop to 14 per cent share.

Overall general premium income rose to £1.8bn from £1.5bn. Life business premiums amounted to £266.1m compared with £790.4m while investment income rose to £509.1m from £504.9m. Lex, Page 16

# Bank Austria bids for GiroCredit

By Patrick Burn in Vienna

Bank Austria, Austria's largest bank, is bidding for control of GiroCredit, the savings banks' clearing institution and a leading commercial bank in its own right.

The object of the move - equivalent to an unfriendly takeover bid - is to force a restructuring of the savings bank sector.

The bid is being made through Antellvarwettung Zentralsparkasse, BA's biggest shareholder and holding company of the former Zentralsparkasse, the Vienna city savings bank now merged into BA, which is offering to buy Giro-

Credit shares from savings banks across the country.

It is offering a mixture of Sch370 cash per nominal Sch100 GiroCredit share and/or the equivalent of Sch400 per Sch100 nominal GiroCredit shares in BA bearer stock.

The offer expires on 18 March.

Bank Austria owns just under 21 per cent in GiroCredit. It aims to buy at least another 20.4 per cent of GiroCredit's shares to raise its shareholding to above 50 per cent.

BA's announcement came as a surprise, and it follows several earlier unsuccessful attempts to restructure Giro-

Credit and the savings banks sector.

Leading savings banks from Salzburg, Linz and Graz responded cautiously to the bid, saying they would have to look at the offer in detail and compare it to an earlier plan put forward by BA for a restructuring of the savings banks.

This entailed selling about two-thirds of BA's holding in GiroCredit to a consortium comprising the Erste Oesterreichische Spar-Casse, the second largest savings bank, Austria Collegialität Versicherung, a leading insurance company, and the savings banks. Erste which already owned

about 21 per cent of GiroCredit was to buy a further 10 per cent. But this plan - which had a February deadline - was abandoned following disagreements over price.

All the savings banks including the Erste Spar-Casse which refused the original plan, are due to meet today to discuss their response to the takeover bid from BA.

Union Bank of Switzerland is making an agreed takeover bid for Regiobank Beider Basel (Regio Bank), a northern Swiss regional bank. Reuters reports from Zurich.

Regio has a balance sheet of SF7.5bn (\$7.7m) and about 200 employees.

# General Accident posts record profits and increases dividend

By Richard Lapper in London

General Accident, the highly rated composite insurer, yesterday provided further evidence of the recovery in the UK general insurance market by posting its highest profit figures.

Pre-tax profits last year amounted to £294.9m (\$447m) compared with a loss of £29.3m in 1992. The final dividend was increased by 4.4 per cent to 17.8p per share, making 27.5p for the year against 26.75p.

Like Guardian Royal Exchange, Royal Insurance and Commercial Union, all of which reported large pre-tax profits last week, GA's turnaround hinged on an improvement in the UK, where underwriting profits of £59.7m for the year - and £32m for the fourth quarter - were reported.

"As anticipated, our early action on rates and operating costs has produced a very significant recovery in operating performance," said Mr Nelson Robertson, chief executive.

Mr Robertson said a "determination to underwrite for

profit and not volume has had a very considerable impact on profitability across the whole portfolio."

Underwriting profits in the motor sector amounted to £11.1m against a loss in 1992 of £46.8m and premium income increased by 4.3 per cent to £252.7m. However, the company reduced its policies to 660,000 from 750,000, Mr Bob Scott, general manager UK, said this reflected a planned reduction in exposures to non-comprehensive policies.

Overall UK premium income increased to £1.38bn compared with £1.25bn.

Elsewhere, results in the US - where GA obtains 32 per cent of its premium income - improved with underwriting losses falling to £140.4m from £210.5m. However, Canada, where GA is the biggest player following an acquisition last year, produced higher underwriting losses, up to £44.1m against a loss of £18.7m.

Mr Robertson said GA had benefited from a reduced level of catastrophe losses in the US, but had been hit by storm

losses and the need to strengthen reserves in Canada. The company is keen to expand in the Pacific - where it has a market share of between 5 per cent and 7 per cent in Malaysia, Hong Kong and Singapore.

Mr Robertson said the balance of the group's account could shift towards North America and the Pacific. "There is nothing in our plan which says the UK has to provide us with a third of our total income."

The company has some capital which it could use for expansion, following a strengthening of its balance sheet. Its solvency margin - net assets as a percentage of non-life premiums - amounted to 57.4 per cent at the end of December 1993, compared to 41.5 per cent a year earlier.

Overall general premium income rose to £1.8bn from £1.5bn. Life business premiums amounted to £266.1m compared with £790.4m while investment income rose to £509.1m from £504.9m. Lex, Page 16

# Bellsouth in Spanish venture

By Tom Burns in Madrid

Bellsouth, the US telecommunications group, has added Spain to its expanding European business by forming a local consortium to bid for a second cellular phone licence to be awarded later this year by the Madrid government.

The consortium, called Reditel, allies the US group to Repsol, the Spanish state-controlled energy conglomerate, two construction companies and to eight savings banks.

Bellsouth will have a 25 per cent stake in the venture and Repsol 15 per cent.

Reditel is one of several alliances, mixing foreign opera-

tors with domestic companies, formed in the past year ahead of the liberalisation of Spain's telecommunications industry. Rival consortia seeking a mobile phone licence include GTS of the US and the UK's Vodafone.

The government is expected to publish the tender requirements for operating digital service cellular telephones within the next two months. Two licences are to be awarded, one of which will be reserved for Telefonica, which is 33 per cent state owned and is the monopoly telecommunications operator in Spain.

A mobile phone service that is already operated by Telefon-

ica, using 450MHz and 900MHz cellular radio networks, is earning the Spanish group about Ptas120n (\$66.7m) in operating profit on a Ptas100bn turnover.

Local analysts said Spain's cellular system could have 1.8m subscribers by 1995, compared with 254,000 at present.

"Our emphasis is on the cellular business but we will be looking closely at other areas as they become available," Mr George Von Open, Bellsouth's chief executive in Spain said. The US group participates in mobile services in Denmark, France in Germany and is bidding, as part of a consortium, for an Italian licence.

# BCI offer closes three days early

By John Simkins in Milan

The public offer in Banca Commerciale Italiana, one of Italy's leading banks, closed last night, three days ahead of schedule - confirming the success of the government's privatisation programme.

The shares went on sale on Monday at L5,400 each. There were indications last night that only about a quarter of the plus people who had applied for shares were likely to receive any.

In total, 260m shares were available to private investors. However, IRI, the state holding company which was disposing of its entire 54 per cent stake in the bank, placed a further

240m shares with institutions.

On the Milan stock exchange last night, BCI closed slightly lower at L6,026 amid heavy turnover.

Trading in the shares on sale in the public offer begins on March 17.

The heavy subscription follows similar strong demand for two earlier privatisation issues.

IRI raised almost L1,750bn (\$1bn) by selling its stake in Credito Italiano in December and the government received almost L2,400bn from shares in Istituto Mobiliare Italiano, the financial services group.

Credito Italiano, the Italian bank privatised last December, reported a 4.9 per cent increase

in net profits to L218.6bn for 1993 as tax charges more than doubled to L640bn.

During a year in which banks saw a sharp fall in interest rates, Credito's gross operating income rose 86 per cent to L1,574bn. Interest income was up 11 per cent at L2,532bn while fee income more than doubled to L1,351bn.

Banca Ambrosiana Veneto (Ambroveneto) yesterday reported gross operating income of over L790bn for last year, up 11 per cent on 1992.

The Milan-based bank, which will reveal net profits later this month, said the outcome reflected its strategy of developing customer services, thus lifting non-interest income.

# Cost-cutting helps Valmet turnaround

By Hugh Carnegie

Valmet, the Finnish paper machinery and engineering group, said yesterday productivity and cost-cutting gains had helped it return to profit in 1993. Profits after financial items were FM100m (\$18.07m) compared with a loss of FM289m in 1992.

Unspecified extraordinary charges of FM154m, mainly write-offs associated with rationalisation moves, resulted in a pre-tax loss of FM54m, but this was a sharp improvement over the pre-tax loss of FM219m in the previous year.

Valmet said it would show a net profit of FM55m when its annual report was published later this month, compared with a net loss in 1992 of FM120m, although details were not given.

Group sales were up 11 per cent to FM10.7bn compared with FM9.6bn in 1992, thanks in part to the fall in value of the Finnish markka last year. More than 80 per cent of Valmet's sales were outside Finland, mainly in western Europe and North America.

Operating profit improved sharply to FM479m from FM171m.

Valmet said its internal rationalisation programmes, coupled with the prospect of more stable markets in the forestry industry, should produce a further improvement in 1994.



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SERIES NO.12  
FFC725,000,000 Inverse floating rate notes 1996  
TRANCHE NO.1

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\$11,000,000 Class B-2  
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**Jay K. Taylor**  
John Willson, President and Chief Executive Officer of Placer Dome Inc., announces the formation of Placer Dome Latin America Limited (PDLA), based in Santiago, Chile, with Jay K. Taylor as President and Chief Executive Officer. PDLA is responsible for Placer Dome's acquisition, mine development and operating activities in South and Central America south of Mexico. Growth of PDLA is expected to come from an aggressive exploration programme under way throughout its jurisdiction, as well as from acquisition opportunities. Mr. Taylor was previously Executive Vice-President and General Manager of Placer Dome Sud America, the predecessor of PDLA. Mr. Taylor is an engineering graduate of the University of British Columbia, Canada, and has been with the Placer Dome organization for 21 years in British Columbia and South America. Placer Dome Inc. of Vancouver, Canada, is an international mining company which operates 17 mines, 13 of them gold mines, in six countries.

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Mortgage Backed Floating Rate Notes 2018

The rate of interest for the three month period 28th February, 1994 to 31st May, 1994 has been fixed at 5.375% per cent. per annum. Coupon No. 24 will therefore be payable on 31st May, 1994 at £1,395.75 per coupon.

Aggregate interest charging balances of Mortgages redeemed during the previous interest period: £2,933,271.05  
Aggregate interest charging balances of Mortgages redeemed as at 28th February, 1994: £223,163,445.33  
The aggregate principal amount of Notes outstanding as at 28th February, 1994: £86,600,000

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FOR THE THREE MONTH PERIOD 28TH FEBRUARY, 1994 TO 31ST MAY, 1994

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 5 1/4 per cent. per annum and that the interest payable on the relevant interest payment date, 31st May, 1994 against Coupon No.26 will be £133.90 from Notes of £10,000 nominal and £13.39 from Notes of £1,000 nominal.

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**New Zealand**

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## Loan-loss fall helps lift top Canadian bank

By Bernard Simon in Toronto

Falling loan losses and strong investment banking income helped Royal Bank of Canada to lift first-quarter earnings by 18 per cent.

The bank, which is Canada's biggest financial institution, predicted that a continuing improvement in its loan portfolio, plus higher productivity, would provide a "solid level of profitability" this year.

Net earnings rose to C\$300m (US\$222.2m), or 82 cents a share, for the three months to January 31, from C\$254m, or 71 cents a share, a year earlier. Return on equity improved to 17.9 per cent from 14.8 per cent.

Assets climbed to C\$183.2bn from C\$177bn, with more than half the increase due to last year's acquisition of Royal Trust, selling trust and loan company formerly controlled by Toronto's Brundman family.

Return on assets slipped fractionally to 0.72 per cent from 0.73 per cent.

RBC is emerging from a turbulent period, which included the Royal Trust acquisition as well as a heavy exposure to the troubled property and forestry industries. The bank has also been criticised for weak internal management.

Earnings have tumbled from

a record C\$956m in 1990 to C\$107m in 1992 and a C\$420m fourth-quarter loss last year.

The bank noted yesterday, however, that fiscal 1994 loan losses were expected to fall to C\$820m from C\$1.75bn last year. The first-quarter loan-loss provision was C\$205m, down from C\$285m last year.

Non-accrual loans totalled C\$3.21bn on January 31, equal to 2.6 per cent of total loans and acceptances. This was slightly lower than three months earlier, but the decline was slowed by a further C\$48m increase in sour commercial property loans.

A further cushion is provided by the rising market value of the bank's Third World debt portfolio.

The surplus has grown over the past quarter, from C\$415m to C\$550m. Any of this surplus realised during 1994 will be transferred to general loan-loss provisions.

Bank of Nova Scotia reported a 19.5 per cent jump in first-quarter earnings, to C\$19m, or 82 cents a share, from C\$16.5m, or 70 cents a share. Return on equity rose to 14.7 per cent from 13.9 per cent.

The improvement was attributed largely to higher interest income and stronger investment-banking earnings.

## Canada considers cutting oil holding

By Bernard Simon

The previous Progressive Conservative government began privatising Petro-Canada in mid-1991, when it sold 42m shares to the public at C\$13 a share. The share price began sliding shortly afterwards, reaching a low of C\$7.38 last year.

Ms Anne McLellan, Natural Resources minister, said she and the secretary of state for finance were reviewing Petro-Canada's ownership.

"Everybody is saying that with share prices where they are, it may be time for the government to take a look at what it wants to do," she said. Other, unspecified, options were also being considered.

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## Argentine banking opened still further

By Stephen Fidler, Latin America Editor

Financial institutions from the US and Europe are exploring the possibility of starting operations in Argentina following a government decree last week which further opened the banking system to foreign competition.

Mr Roque Fernandez, president of the central bank of Argentina, said those applying to open branches included the financing arm of General Motors, GMAC, and a Chilean group. Other applications were expected from US and European banks.

Mr Fernandez was in London

for talks with the Bank of England. He hopes to persuade the Bank that his institution is capable of supervising Argentine banks' international activities - thereby paving the way for the opening of further Argentine bank offices in London. He is also talking to banking authorities in Spain, the US and Japan.

Last week's decree brought protests from Argentine banks. Mr Fernandez said the Argentine banking system was competitive - 200 financial institutions were now operating compared with 900 in 1980. However, there has been concern among businesses about high lending margins.

## N American groups study Vox stake deal

By Christopher Parkes in Frankfurt

North American media companies are negotiating for a 49 per cent stake in Vox, a private German television station owned by a consortium headed by the Bertelsmann group.

According to unconfirmed reports, the bidders are Time Warner of the US and CanWest Global Systems of Canada. Vox is one of nine German-based private broadcasters competing for viewers with 15 publicly-owned channels.

Their move is understood to have been initiated last month when the publisher of the Suddeutsche Zeitung newspaper, decided to dispose of its 50 per cent stake in the struggling broadcaster.

Bertelsmann, Europe's biggest media business with widespread international interests in print and electronic media, holds a 24.9 per cent stake.

Other shareholders include the WDR holding company, of which 47 per cent is in the hands of the public sector bank, WestLB.

Bertelsmann yesterday would confirm only that it was in talks which should lead to "stabilisation" of the shareholdings in Vox, which had a shaky launch into the crowded German TV market just over a year ago.

The company said a group of American investors was seeking a 49 per cent stake, but that the current owners were not offering that amount. It said that although Bertelsmann had no plans to reduce its stake, an announcement could be made in the next few weeks.

Originally conceived as an information channel, much of Vox's output is now entertainment. The Suddeutsche Zeitung, which supplies a magazine programme, S-Zett, and other services to Vox, is believed to want to pull out because of the format change, and the unexpectedly high start-up losses, exacerbated by recession.

## Low newsprint prices keep Abitibi in red

Low paper prices drove Abitibi-Price, the world's biggest newsprint producer, to its fourth consecutive year of losses in 1993, writes Bernard Simon.

The Toronto-based company said newsprint prices in North America had shown no signs of recovery this year.

However, it was counting on a combination of higher off-shore prices, a 7 per cent cut in North American discounts, and price rise to lift operating results during 1994.

Net losses last year totalled C\$121.7m (US\$90.1m), or C\$1.71 a share, a significant improvement on 1992's C\$220.9m deficit, equal to C\$3.19 a share. The results include a narrowing in losses from discontinued operations, to C\$13.4m from C\$27.8m.

Sales rose to C\$1.87bn from C\$1.80bn while operating losses fell to C\$39.5m from C\$139.1m.

## Glory days gone for discount pioneer

Kmart's costly expansion and modernisation has turned sour, writes Richard Tomkins

Kmart, the US retailer and pioneer of the discount store concept in the early 1960s, was rewarded for its invention for one fleeting moment in the late 1980s, when it became the world's biggest retailer.

Now, in the 1990s, it is still near the top of the league in terms of annual sales - but in terms of last year's profits, it looks like a company on the ropes.

After five years of disappointing earnings, Kmart went from had to appalling with the figures it reported on Monday.

For the fourth quarter to January, it turned in net losses of \$1.2bn, compared with net profits of \$535m last time. For the year as a whole, it reported net losses of \$74m, compared with net profits of \$941m a year earlier.

Admittedly, there were special factors at work. During the fourth quarter, it incurred costs of nearly \$1.5bn pre-tax for the disposal of some operations and the restructuring of others.

However, even after stripping out all the unusual charges, and ignoring the losses made by the discontinued operations, the group would only have shown net income for the year of \$634m - clearly unsatisfactory for a group with sales of \$84.2bn.

In contrast, Kmart's bigger rival, Wal-Mart, reported net income of \$2.3bn on turnover of \$87.8bn for the same period, even after acquiring Kmart's loss-making Pace Membership

Warehouse operations during the year.

However it's not only the financial performance of the two companies that separates them; they have also followed contrasting strategies.

While Wal-Mart has stuck closely to general merchandising, either through its discount stores or membership warehouses, Kmart has bamboozled observers with its changes of direction.

These started in the 1980s when, faced with growing competition from Wal-Mart and other discount-store operators, it started looking for new sources of profits growth.

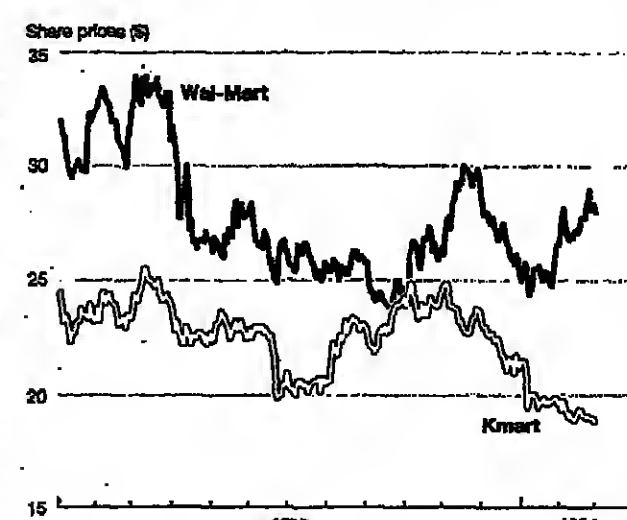
Following Woolworth's example, it decided specialty retailing was the answer, and set about using the cashflow from its discount stores to gain a foothold in new sectors.

It bought or set up the PayLess Drug Stores chain, the Waldenbooks and Borders book stores, the Sports Authority sporting goods shops, the Builders Squares home improvement stores, and the OfficeMax office supplies chain.

Consistently, however, it also sought to expand in general merchandising by making forays into the hypermarket or membership warehouse business, first by taking a stake in the Makro hypermarket chain and then buying the PACE Membership Warehouse operation.

Both ventures proved unsuccessful, ending in heavy write-downs.

Next, the core of its strategy



Source: Datastream

started to weaken when it discovered that the discount stores could not be relied upon to generate the cash required, because they needed heavy investment to survive the competition from Wal-Mart and other discount store groups.

In 1990, Kmart responded to the competitive threat by launching a costly modernisation programme for the discount stores.

By 1992 it had reached its goal of refurbishing 450 stores a year. However, it abruptly scaled back the programme, saying it wanted to consider re-entering the hypermarket sector with a new Super Kmart format.

In January, another

about-turn came when Kmart announced that the results coming through from the refurbished discount stores were so good the modernisation programme would resume, absorbing the larger part of a \$1.3bn restructuring charge.

Meanwhile, back in retailing, the PayLess Drug Store chain produced unimpressive results and was sold last year. Taken as a whole, the other specialty retailing operations have delivered profits falling short of target and, in January, Kmart announced it planned to sell between 20 and 30 per cent of their equity in a series of stock sales.

An optimistic view of Kmart's outlook for 1994 would be that all the bad news had

been cleared away, and that the company was poised for growth. However, the state of the share price, hovering close to its 12-month low of \$18.75, suggests that few in the market subscribe to that view.

Kmart's lack of a clear strategic direction is only one reason for the pessimism.

The other is that it is not up to the competition with Wal-Mart because the latter is simply a better retailer. Last year, for example, the poor financial performance of Kmart's discount stores was largely explained by the fact that it overstocked on goods that people did not want, and ran out of things they did want.

Analysts say this does not happen at Wal-Mart, because it is ahead in using technology to match what people want with what it stocks.

"Wal-Mart has a much better read of what is selling in its stores, so it doesn't carry dead inventory," says Ms Maureen McGrath of Smith Barney Shearson, the Wall Street brokerage house.

Kmart has also invested in technology, but it has not been enough to stop Wal-Mart's inexorable growth. Last year, Wal-Mart's sales - already twice the size of Kmart's - rose by more than 20 per cent, and analysts believe they will advance by another 20-25 per cent this year.

Since the market itself is barely growing, something else will have to give. Seen in that context, Kmart's troubles seem far from over.

## Coca-Cola looks to the Grape Beyond

By Richard Tomkins in New York

It sounded more like a fringe meeting at a New Age rave than a product launch. Against a background of weird, troubling music, the man at the podium talked of yin and yang, body and soul, life, the universe, and everything.

However, to nobody's great surprise, it quickly emerged that Coca-Cola had not decided to give up the business of money-making for a life of philanthropy and consciousness-raising.

Rather, it was signalling plans to grab a slice of the market for so-called New Age beverages, the fastest-growing sector of the US soft-drinks market.

Coca-Cola's weapon in the New Age drinks war is a product called Fruition, a vaguely psychedelic-looking range of bottled drinks that turns out to consist of nothing but water, sugar, fruit juice and natural colouring.

However, if the contents of the bottles are prosaic, the labels are not. They carry pictures dotted with the words "mind", "body" and "spirit", and the drinks have names like Raspberry Psychic Lemonade, Strawberry Passion Awareness, Total Fruit Integration and Citrus Consciousness.

The bottles also carry mind-expanding epigrams. On the bottle of Grape Beyond, for example, the slogan says: "Things that are still right in the cosmos: the perfection of a

circle, Beethoven's 9th, Grape Beyond."

The launch of its Fruition is seen as a clear attempt by Coca-Cola to replicate the phenomenal success of a range of similar fruit drinks made by the New York-based Snapple Beverages, a stock-market flyer since it went public a year ago.

By coincidence, Snapple yesterday reported net profits soaring to \$67.8m in the year to December, from a pro-forma \$18.3m last time. Its shares, however, sank 15% to \$27.4 as news of the Fruition launch emerged.

The total market for New Age beverages - loosely defined as "natural" drinks like iced teas, fruit juices, bottled water and sports drinks - is estimated to be worth \$63m,

and Coca-Cola has only 8 per cent of it. The company expects Fruition to take that share to 15 per cent initially, and to 30 per cent within three years.

Mr Sergio Zyman, Coca-Cola's senior vice-president and chief marketing officer, said the product would be available in US stores in four weeks, and in three or four other countries soon after. Its launch would be backed by a \$30m marketing campaign.

Snapple seemed unconcerned by the move. All that extra advertising would simply accelerate the market's growth, it said. And, asked why so many people were suddenly buying New Age beverages, it suggested: "Maybe they're sick of Coke."

## Spanish cement group earnings up by 58%

By David White in Madrid

Valenciana de Cementos, the leading Spanish cement producer which is controlled by Cemex of Mexico, defied an overall decline in the cement market last year and increased group after-tax profits by 58 per cent to Ptas5.61bn (\$40.1m).

Part of the increase came from the inclusion of the last three months' figures from Sanson, another cement producer brought into Valenciana last year.

Both companies, formerly controlled by the Banco Español de Crédito (Banesto) banking group, were bought by Cemex in 1992.

Net operating profit for the group rose more than fourfold to Ptas1.69bn, mainly due to improved production processes and cost-cutting, as well as price increases.

The group's sales, excluding those of Sanson, were 5.7 per cent down to Ptas48.07bn but the decline was less than half the estimated overall decline in cement sales during the year, including the Sanson figures, turnover was Ptas50.94bn, which was 4.3 per cent more than 1992.

Valenciana, which represents about a third of Cemex's business worldwide, said it expected a slight recovery in the market this year.

## Ipsco capacity rises 24%

Ipsco, western Canada's only basic steelmaker, ran at full capacity last year with shipments peaking at 1m tonnes, up 24 per cent from 1992.

Demand was strong for sheet, oil and gas well tubing and fabricated products, but large diameter pipe business was weaker.

Fourth-quarter net profit was C\$9m (US\$6m) or 39 cents a share, up from C\$6.1m or 38 cents on fewer shares outstanding a year earlier. Revenues were C\$168m, against C\$140.5m.

For the full year earnings were C\$28.7m or C\$1.42, compared with C\$15.5m or 98 cents.

## Hunting in Argentina's bargain basement

International companies are finding strong takeover targets, writes John Barham

Mergers and acquisitions in Argentina are managed to survive alone in Argentina's liberalised market. Often they are family-owned businesses with succession difficulties, or face insurmountable financial or technological problems.

Buyers are attracted by an economy expected to grow 5-6 per cent a year to the end of the decade. Furthermore, the performance of most local companies can be rapidly increased with strong management, capital and technology.

The Excel Group, a Buenos Aires-based buy-out company, has bought paper, soap and electricity companies and shows what strong management can achieve. Mr Juan Navarro, Excel president, says that at one of his acquisitions, "we cut overheads by 35-40 per cent, increased output by more than 60 per cent in six months and cut 10 per cent of the staff".

Multinationals usually look for branded mass consumption goods, with little debt, where they can add value rapidly. The food industry is a leading acquisition target. Argentina's pampas, those vast grasslands and wheat prairies, make it a large-volume, low-cost agricultural producer.

As well as RJR Nabisco, food groups such as Nestlé and Cadbury-Schweppes have been buying companies in Argentina recently.

Results for the trailblazers have been impressive. In 1991, when US tobacco and food giant Philip Morris acquired Swiss chocolate maker Suchard, the Argentine subsidiaries of both companies came together just as the economy began an unexpected recovery.

Mr James Stewart, Philip Morris's local general manager, says: "We used the retained earnings from Suchard to finance [later] acquisition of an ice cream company and the Tang powdered drink company." He says revenues from the food business have risen fivefold and income 8.5 times since 1981.

The US investors who bought a bankrupt Pepsi bottler in 1989 have been even more successful. The investors, led by Mr Charles Beach, paid a nominal sum for the bottler Basesa, but invested more than \$200m to build it into a company with listings in New York and Buenos Aires and a market capitalisation of \$940m.

Mr Beach had seen the potential of a market with rising incomes and repressed consumption. Argentines drink

fewer soft drinks than consumers in other developing countries. Mr Rafael Parace, Basesa's finance director, said "promotion, marketing, efficient production, innovation and distribution were the keys of our success".

Sales grew to \$268.8m last year from \$151.5m in 1990. Margins rose by a third to 41 per cent. PepsiCo has awarded Basesa franchises in Chile, Uruguay, southern Brazil and southern Argentina, and helped finance the expansion by paying \$35m for 26 per cent of Basesa.

As well as food, attention has focused on the underdeveloped but highly promising financial services industry. The petrochemicals industry, until recently given up for dead, is showing signs of recovery. Argentina has a large number of small car parts companies, many of which are in need of consolidation and radical reorganisation.

Inevitably, buyers arriving late at the party are paying higher prices for less attractive companies. Argentina has few companies that turn over more than \$100m a year, and most are owned by families that usually surrender control only as a last resort.

Putting a price on a company is hard at the best of times, especially as accounting standards are lax. Furthermore, rapid economic change makes past performance a poor guide to a company's value.

Investment bankers say prices have more than doubled in three years to an average 10-15 times earnings.

However, analysts believe British food and beverage group Cadbury-Schweppes has paid too much for Stani, a local sweet company it bought last October. Mr Stephen Ward, Cadbury's managing director for the Americas, will not disclose the price, but says Stani was a good buy: "Stani gets high marks for leadership, management, with strong brands and a good position in the marketplace."

Despite rapid growth, Argentina, with a population of only 32.6m, is not a big market. However, international companies striving for a global market presence cannot ignore it.

The growing pace of trade with Chile and economic integration with Brazil through the Mercosur customs union make the regional dimension increasingly important. Mr Ward says Stani is a "stepping stone" for Cadbury's expansion in the region.



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## INTERNATIONAL COMPANIES AND FINANCE

# NEC, Samsung to extend co-operation

By Our Financial Staff in London and AP-DJ in Tokyo

NEC of Japan and Samsung Electronics of South Korea, two of the world's largest memory chip manufacturers, plan a joint development of next-generation memory chips, expanding their existing co-operation agreements, NEC said yesterday.

The two companies are aiming for an agreement by the middle of this month on a development of 256-megabit dynamic random access memory (DRAM) chips which could cost up to ¥100m (\$60m).

Japanese semiconductor makers, who have superior manufacturing technology, have previously teamed up with US chip manufacturers, but are now increasingly turning to South Korea as technology there advances.

Japan's leading semiconductor makers have this year begun mass producing 16-megabit DRAM chips, and are planning to start sample shipments of 64-megabit DRAM chips. Analysts believe that

samples of the 256-megabit chips are likely to be available in 1997 or 1998.

But the more advanced the semiconductor, the more expensive it is to develop, the NEC spokesman said. He said the cost of developing the 256-megabit DRAM chip is seen "in the tens of billions of yen".

The NEC spokesman said the accord with Samsung would spread the risk, and allow mutual supply by uniting production specifications.

NEC and Samsung have already agreed to exchange information on the 256-megabit DRAM cell structure and Samsung has asked for NEC's help in developing the logic integrated circuit, which relies heavily on process technology.

Samsung is South Korea's largest semiconductor maker and, based on sales, ranked seventh in the world last year, for the first time breaking into the top 10.

NEC, the world's second-largest chip maker behind Intel of the US, holds more than 50 per cent of Japan's personal computer market.

# Star TV ends legal battle with Wharf Cable

By Louise Lucas in Hong Kong

Star TV, the Asian broadcasting giant 63.6 per cent owned by Mr Rupert Murdoch's News Corporation, has averted a legal dispute with Wharf Cable, the fledgling Hong Kong network, by announcing it will not enforce a nine-month old agreement to supply programming to the cable operator.

The move ends months of wrangling, which culminated in January when Wharf took court action to scrap its licensing agreement, under which it is required to screen four premium channels and three existing Star channels - MTV, the BBC World Service and Prime Sport.

Wharf started proceedings against Star after seven months spent "attempting to conclude an agreement with successive Star TV managements".

Mr Gary Davey, the third chief executive of Star TV in six months, said: "Star TV has reluctantly come to the conclusion that a workable relationship with Wharf Cable is simply not possible under the present agreement."

"We are hopeful that by taking this action the whole issue will be looked at in a less contentious manner and help us move forward in finding a way to make these services available to Hong Kong viewers."

Wharf Cable said it was sorry to see Star's plans to launch new regional pay TV services will be further delayed and noted that in order to continue to expand viewers' choice it would endeavour to source quality channels from a wide range of other regional providers as well.

Shell Electric Manufacturing, a Hong Kong electric-appliance maker, reported net profits of HK\$139.6m (US\$18.1m) for the year to October 31 1993, up 73 per cent on the previous year.

Revenues totalled HK\$1.3bn, against HK\$1.2bn, and second-half dividend is raised to 11.5 cents from 8 cents.

# World waits for the second Chinese wave

Louise Lucas looks at the batch of companies set for overseas listings this summer

The second batch of China state-run companies slated for overseas listings is likely to hit Hong Kong - or, in some cases, New York - around July, roughly a year after Tsingtao Brewery, producer of the only internationally recognised Chinese beer, made its trail-blazing debut.

On that occasion the mood was euphoric: the stock rose 29 per cent on its offer price, and up to 100 regulatory and industry dignitaries trooped into the Hong Kong stock exchange gallery for toasts of Tsingtao. But there were also plenty of teething problems, exacerbated by debates over the preferred route the global offering should follow to ensure optimum pricing and whether primary listings should be sought beyond the colony.

Things are expected to be altogether different this summer. While analysts reckon there is still sufficient long-term interest in China to outweigh the current raft of uncertainties over the way in which tax and currency reforms will affect companies, the fact remains that increased supply will mop up some of the froth.

Looking at the 22 state companies approved for overseas listings, professionals report a far greater will and ability to streamline and adapt operations in order to woo the international investors. The resistance encountered last



Tougher trade: this time the HK SE expects increased supply to mop up some of the earlier froth

year is, they say, already history.

Mr Meocore Li, managing partner of Arthur Andersen Hong Kong and China, cites the example of one of the early companies which his firm visited. The company insisted it did not want to undergo any restructuring; it wanted the world to see what a socialist-style company looked like. Ultimately, it had to forgo its ideals, but not before other accountants had passed through its doors and delivered the same verdict.

So far down the road have China bosses come - only recently, releasing commercial information to foreigners would have landed company directors in jail - that at least four of the 22 are aiming for Wall Street, where disclosure requirements are far greater than in Hong Kong.

These include Shandong Huayang Electricity Joint Stock Power Company and Huayang International Joint Stock Company, both power supply companies, and perhaps China Southern Airlines and China Eastern Airways.

The attraction of New York over Hong Kong is broadly twofold: price/earnings ratios are greater and so companies can raise more cash; there are fewer China companies available; and - not at all least important in Chinese eyes - New York is perceived as carrying higher prestige.

Some China companies already listed in New York are trading on an average p/e of around 30 times whereas the first batch of H shares (Chinese company shares listed in Hong Kong) came on line in the colony with p/e ratios of around 10 to 15.

Some analysts believe one or two companies may achieve a listing in London especially as the stock exchange there has been lobbying in China.

Mr Charles Lee, chairman of the Hong Kong stock exchange is undamned by the competition - pointing out that this is after all what the free port of Hong Kong thrives on - and says the Beijing State Council's decision to test the waters in New York is very much by way of a small pilot run.

Feedback from New York and Tokyo, he says, shows that institutional investors tend to prefer shares having their primary listing in Hong Kong, because Hong Kong can better understand - and more realistically price - the issues.

He illustrates this with the case of Shanghai Petrochemi-

cal, one of last year's biggest H share issuers. Only about 30 per cent was offered in the colony with the remainder going abroad - mainly to the US. Yet trading over the past couple of weeks has shown that volumes in Hong Kong are four times those in New York.

It is inevitable that the bulk of the second batch of companies will wind up in Hong Kong: the colony's stock exchange last year signed a special Memorandum of Understanding with its counterpart in Beijing which smooths the way for mainland enterprises to list, by promoting co-operation between the two parties.

H shares per se may no longer be a novelty, but the second time-up offers investors their first bite at some of the hottest China sectors - infrastructure and aviation, key beneficiaries of a developing middle class and government commitments to breathe life into poor power and transport facilities.

Ms Dora Hung, analyst with Goldman Sachs in Hong Kong, says: "People expect short-term volatilities following changes in China's policy and the tax structure. No-one yet knows how the government will implement some of these changes. It takes time for things to run smoothly with new regulations coming into force, but for people investing in China they know they must look long term."

# Arnotts posts 16% rise to A\$44m at halfway stage

By Nikki Tait in Sydney

Arnotts, the Australian biscuits, snacks and confectionery company now majority-owned by Campbell Soup of the US, yesterday reported a 16.6 per cent increase in after-tax profits before abnormal items, in the six months to the end of December, to A\$44.2m (US\$31.5m), and said it was confident of meeting its full-year forecast of A\$90.9m.

There were no abnormal changes in the latest half-year, but the first half of 1992-93 included a A\$15.8m surplus, taking the group's net operating profits for that period to A\$53.8m after abnormal.

Yesterday, Mr Paul Bourke, Arnotts managing director, admitted that underlying sales advances had been extremely difficult to achieve during the

six months. Arnotts' total sales fell from A\$344.8m to A\$332.8m, although Mr Bourke said that if asset disposals were excluded, there was a small 1.3 per cent increase. The underlying increase in volumes was just 0.9 per cent.

Overall, sales for the core Australian biscuit division were similar to the corresponding period a year ago, but Arnotts said that the contribution for the newly-launched snack products range had been "lower than anticipated". Mr Bourke also conceded that lower media spending had helped the profits increase.

He said Arnotts' planned move in Asian markets was progressing, with discussions under way which could lead to biscuits being manufactured in southern China within a year to 18 months.

## NEWS DIGEST

### CSR steps up expansion into Asia

By Nikki Tait

CSR, the Australian building materials and sugar group, yesterday stepped up its foray into Asia, acquiring a 50 per cent interest in Corinthian Industries (Singapore) for A\$35m (US\$25m).

The company makes wooden doors and door components in Malaysia, Singapore and Indonesia and has sales of around A\$120m. The new joint venture will be head-

quartered in Kuala Lumpur. It is the latest in a spate of Asian investments by CSR, which have included a A\$45m investment in a Tianjin-based quarrying and concrete business in northern China last week.

### Sakura Bank links with US accountants

Sakura Bank, one of Japan's biggest banks, is linking up with the US accounting firm Arthur Andersen to help meet the growing demand in Japan for advice about investing abroad, AP-DJ reports from Tokyo.

Under the agreement, Sakura will refer consulting requests from its Japanese cus-

tomers to Chicago-based Arthur Andersen, which has offices worldwide.

Arthur Andersen's strength in consulting about China is a key reason for the deal, a Sakura official said.

### Casio sees new products boost

Casio Computer, the leading Japanese digital watchmaker, said it expected its parent profits to jump between 20 and 25 per cent to ¥11.5bn (US\$90m) in 1994-95 as a result of planned new products, Reuters reports from Tokyo.

A spokesman said parent sales were forecast to rise between 5 and 10 per cent to ¥950bn.

# Bundaberg Sugar raises offer for crushing mills

By Nikki Tait

Bundaberg Sugar, the Australian sugar producer owned by Tate & Lyle of the UK, yesterday raised its A\$87m (US\$62m) bid for two crushing mills in northern Queensland.

Bundaberg, acquired by Tate & Lyle for A\$325m three years ago, said it was increasing its offer for the 30,000 shares in the Tully Sugar mill from A\$1,600 a share to A\$2,160 a share. Its offer for the 3.9m shares in South Johnstone goes up from A\$9.40 to A\$12.25, increasing the total value of

the bids by around A\$26m, to approximately A\$113m.

Mr Geoff Mitchell, managing director of Bundaberg, said that the increased offer was an effort to address issues raised by shareholders, including "current profitability, retained earnings, grower control and prospects". Bundaberg, which announced its original offers in October, said that "the proposal to invest in the north Queensland sugar industry now represents a total commitment of some A\$125m".

The mills said that the offers would be referred to their financial advisers.

## NEW ISSUE

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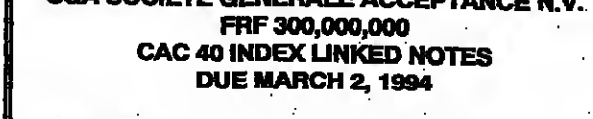
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FRF 300,000,000  
CAC 40 INDEX LINKED NOTES  
DUE MARCH 2, 1994

In accordance with the Terms and Conditions of the Notes, notice is hereby given that, pursuant to paragraph (c) of Condition 5, "Purchase and Redemption", the Redemption Amount of the Notes will be 126.30%, calculated by applying the following formula:

$$FRF 1,000 \times \left[ 1 + 1.23 \times \frac{(CACM - CACI)}{CACI} \right]$$

where "CACI" = 1,843 and "CACM" on February 28, 1994 = 2,238.36

Payment of principal will be made on March 2, 1994 in accordance with Condition 6 "Payments" of the Terms and Conditions of the Notes.

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## COMPANY NEWS: UK

## T Cowie beats City forecasts

By Paul Taylor

Sharply lower interest costs helped T Cowie, the car leasing, motor trading, bus and tractor group, achieve a 56 per cent increase in pre-tax profits last year to £38m.

The advance, from £24.3m in 1992, was ahead of market expectations and Cowie's shares closed up 7p at 331p.

Turnover grew to £799.6m (£695.9m) including £148m generated by the Keep Trust motor group of 18 dealerships acquired for £28.6m last May.

Earnings per share improved by 56 per cent to 20.8p (13.4p). A final dividend of 5.5p (4.25p) makes 7.85p, up 26 per cent.

Mr Gordon Hodgson, chief executive, said the results highlighted that "the company car market is returning to normality," with fleet renewals continuing to improve.

Operating profits, including a £2.5m contribution from Keep Trust, slipped to £38.8m (£51.7m), mainly reflecting the impact of falling interest rates on the core finance division and lower margins in the acquired motor dealerships.

Offsetting this, the group recorded a net £3.8m exceptional gain mainly reflecting proceeds from share transactions compared with a net exceptional gain of £255,000 in 1992. Pre-tax profits were boosted by a sharp decline in

interest costs and similar charges to £24.6m (£36.2m).

On a divisional basis, the finance division, which mainly comprises market-leader Cowie Interleasing, reported lower turnover of £230.3m (£245m), but a 43 per cent rise in pre-tax profits to £23.7m (£16.6m).

The motor division lifted its contribution to £8.53m (£5.48m) on turnover of £518.5m (£316.3m), partly reflecting the Keep Trust acquisition.

Grey-Green, the group's London bus and coach operator, increased turnover to £14.4m (£13.5m) but profits declined to £1.6m (£1.6m) because of increased insurance costs.

Hughes DAF, the national bus and coach distribution business, lifted turnover by 20 per cent to £16.1m and profits by 29 per cent to £2.26m.

Net borrowings of £288m at end-December were down from £308.7m a year earlier and represented gearing of 212 per cent, down from 306 per cent.

## COMMENT

The acquisition of Keep Trust has boosted Cowie into the big league of UK motor retailers. In the short term, however, it has eroded operating margins in the motor division - the new dealerships generated £1.763 of profits per employee in the final 9 months last year, still way behind the £4.891 per head generated in the established Cowie dealerships.



Gordon Hodgson: fleet renewals were continuing to improve

Squeezing more profits out of the new dealerships coupled with the growth of contract hire and stronger fleet market should boost pre-tax profits to about £43.5m this year, producing earnings of 23p. Despite the recent increase in the share price they are still only trading on a forward multiple of 14.4 and could go higher.

about £43.5m this year, producing earnings of 23p. Despite the recent increase in the share price they are still only trading on a forward multiple of 14.4 and could go higher.

## Direct selling expansion by GRE

By Richard Lapper

Guardian Royal Exchange, the fifth largest of the UK's composite insurers, has signalled a sharp intensification of competition in the £6bn-a-year motor insurance market with yesterday's launch of Guardian Direct, its own direct telephone-based insurer.

The group, which announced it was dropping Royal Exchange from its title on Monday, will invest heavily in the subsidiary, spending at least £10m on advertising and marketing in its first year of operation.

It will compete in a market headed by Direct Line, the Royal Bank of Scotland subsidiary which insures 1.4m of the UK's 18.5m motorists.

"This is the first time a composite has made a heavy-weight decisive move into the market," said Mr Ray Pierce, managing director.

He claimed that the "sheer weight" of investment in advertising and marketing would create brand awareness, allowing the company to grow rapidly.

The company is expected to underwrite both home and motor insurance.

Based in Colchester, Guardian Direct will initially employ 160 people, of whom 80 will be telesales staff. "Volume is important," said Mr Pierce.

GRE has been slow to move into the direct market, partially because of its dependence on business generated by brokers and building societies. It had also been reluctant to alienate the brokers with which it traditionally does motor business.

General Accident, Eagle Star and Royal Insurance have all formed direct writing subsidiaries, but their growth rate has been more modest than that of Direct Line and Churchill, a subsidiary of Winterthur, the Swiss insurer.

Mr Pierce, who joined GRE after spells as chief executive of Robson Rhodes, the accountant, and the Mortgage Corporation, said the company would be the "strategic late entrant" and could equip itself with technology superior to many competitors.

"The systems of some of our competitors are already out of date," he said.

Although Guardian Direct will be operated separately from GRE's existing motor business, it will be able to take advantage of facilities already set up by its parent, such as a network of 500 approved repair centres for damaged cars.

Guardian Direct aims to compete on both service and price. The company will handle claims over the telephone and settle bills direct. Market-leading material suggests "policyholders can save up to 30 per cent off conventional motor and household policies".

## Coal Invs plans to raise £11.5m for development

By Michael Smith

Coal Investments, formerly known as Geovor, plans to raise £11.5m to develop two pits for which it has agreed terms with British Coal to mine for 15 years.

It will raise £3.5m through the issue of loan stock to shareholders and £8m through new shares at 65p, half of which will be placed and half distributed through a 1-for-8 rights issue.

The shares were suspended at 70p three weeks ago, pending talks with British Coal and the financial arrangements announced yesterday. Dealings are expected to resume on March 28 following an extraordinary meeting.

The two pits, Hem Heath, part of the Trentham mine, and Coventry, will be among the first to be licensed by British Coal.

Coal Investments is also the front runner for the lease to mine Markham Main colliery in South Yorkshire and may bid for two others.

The company started mining coal yesterday at Cwmwili, south Wales, its only working pit. It plans to produce 120,000 tonnes a year and to make slightly more than £1m in operating profits on turnover of £8m at the mine, ahead of previous budgets.

The arrangements announced yesterday will lead to the issue of 12m shares. In addition shareholders will receive warrants to buy one share at 85p for every four shares they take up at the rights. Shareholders will also be able to subscribe for zero coupon loan stock which will repay £1 for each 60p paid, equivalent to a gross yield of 13 per cent. The stock will also have warrants attached.

## COMMENT

As former commercial director of British Coal, Mr Malcolm Edwards, the chairman, has a strong background in sales techniques, which has stood him in good stead at Coal Investments. His ability to sell the potential coal, not to men-

tion the story, of Coal Investments has been crucial in the shares rising by more than four times in the first five months after its re-incarnation. He sounded convincing again yesterday as he spoke of how his company could rely on sales of at least 2m to 3m tonnes a year by concentrating on industrial and household markets: sales to electricity generators would be additional. We will have to wait to see if this is fulfilled. The company does not expect to be making money until the year after next. Charles Stanley, its broker, believes at least £2.7m is likely for the year ending March 1996, putting the shares on a prospective p/e for that year of 11. These are early days yet and the uncertainty of a declining coal market means that the rights issue is not one for those with limited funds. But the company's cash generative potential and its relatively small capitalisation may prove attractive for institutions which can bear some risk in their portfolios.

## Domnick Hunter to raise £16m

By Andrew Bolger

The flotation of Domnick Hunter is expected to raise about £16m in new money for the north-east of England-based engineering group which claims to be a world leader in filtration products.

The flotation, by way of a placing, will give the group a market capitalisation of about £60m. It is expected that impact day will be March 16 and that dealings will start on March 23. Of the net proceeds, about £9.5m will be used to redeem preference shares and £5.4m will be used to reduce group borrowings.

The group has a dominant role in the UK compressed air filter market, and exports more than 60 per cent of sales to 40 countries. Last year it made operating profits of some £4.7m on turnover of £30.6m. A pathfinder prospectus was published yesterday.

## Smith &amp; Nephew

Smith & Nephew, the healthcare group, is acquiring the remaining 50 per cent of the shares in BSN B Braun-Smith & Nephew, its joint venture with B Braun Melsungen of Germany.

The performance-based consideration is capped at £1.9m and the transaction is subject to clearance by the German Cartel Office.

## Markheath in reverse takeover

By Roland Adburgham, Wales and West Correspondent

Markheath, the heavily indebted property company, is to acquire Thomas Bailey Investments in a reverse takeover by the privately owned Welsh property developer.

The conditional deal will mean that Markheath, which has had a standstill agreement with its bankers since last March, will change its name to TBI and move its headquarters from London to Cardiff.

It will have a portfolio of commercial and retail properties and development sites in London, Stevenage and south Wales valued at £36.5m, yielding about 10 per cent.

Of Markheath's bank borrowings of £67.7m, about £25m will be written off by banks led by Midland and ANZ, £22m will be refinanced by a new term loan from Barclays and the balance

satisfied with the majority of the proceeds from a £24m share placing and open offer.

The share placing and offer - on an 11-for-17 basis of 79m new ordinary shares at 33p - is underwritten by Charterhouse.

The new shares will represent 64.7 per cent of the enlarged capital. Mr Stanley Thomas, a principal shareholder in Thomas Bailey, and Mrs SM Case, his sister, will subscribe for up to 22.7m of the shares.

Mr Michael Rendle, non-executive chairman of Markheath since 1991, will become non-executive chairman of TBI and three Thomas Bailey directors will join the board. Mr Thomas and Mr Paul Bailey will be deputy chairman and executive director and Mr Paul Guy chief executive.

The three new directors will receive a 30.3 per cent stake in the enlarged capital for selling their company to Markheath.

Dealings in Markheath shares have been suspended at 6p pending shareholders' approval of the restructuring at an extraordinary meeting on March 24. Old shares will be consolidated on a 20-for-1 basis.

Markheath incurred a pre-tax loss of £2.37m in the six months to September 30 last year with net liabilities of £14.8m, including bank borrowings of £67.7m.

It ran into trouble with the downturn in the commercial property market and also made losses totalling £37m on the sale of investments in Programme Estates and Camford Engineering.

Its property portfolio has been written down by £75m over the past two years and staff have been reduced from 150 to 10.

Thomas Bailey made a pre-tax profit of £422,000 in the seven months to November 30 with net assets of £8.7m.

## Expansion at Yorkshire Water

By Peggy Hollinger

Yorkshire Water's strategy to increase its presence in the clinical waste sector gathered momentum yesterday with the purchase of Dywell (Holdings) for £5.2m.

Mr Janson Cox, managing director of Yorkshire Environmental, said the addition of Dywell would propel the clinical waste division into the "number one slot" with a market share of between 20 and 25 per cent.

Dywell is, in effect, a start-up business with just one incinerator and several contracts to build further facilities to process clinical waste

for health authorities and hospital trusts.

The threat of increased environmental regulation from the EC and loss of crown immunity in the UK mean that trusts and authorities are seeking improved methods of disposal.

Some £20m is budgeted for investment in new incinerators for the enlarged division. This will mean that the clinical waste operation is unlikely to produce a profit for about two years.

The group further strengthened its business with the £6.1m purchase of a profitable environmental laboratory group in the Netherlands. Yorkshire will integrate this with ALcontrol, its existing laboratory business.

## Wainhomes to raise £32m from placing

By Andrew Taylor, Construction Correspondent

Wainhomes, the Chester-based housebuilder, plans to raise £32m from a placing and offer for sale valuing the company at about £100m.

The company is the latest in a series of housebuilders to announce plans to come to the market.

Redrow, one of the UK's largest private housebuilders, is expected to announce proposals to float the company today.

Beazer Homes - the country's fourth largest housebuilder, presently owned by Hanson - last week published its pathfinder prospectus for an issue expected to raise £450m.

Details of the Wainhomes issue, but not the price, were contained in a pathfinder prospectus published yesterday.

Until recently Wainhomes only built homes mainly in north-west England.

The company will use the proceeds to repay borrowings - currently £17m - and to buy land to take advantage of the

recovery in the housing market in the UK.

Directors and their families now own 66 per cent of the shares. They will have their stake reduced to just under 50 per cent following the issue.

The company is forecasting pre-tax profits of £7.1m for the year to March 31. This compares with profits of £5.3m in the previous year and a peak of £8.6m in the 12 months to March 31 1990.

Mr Ron Smith, chief executive, said the company had been remarkably resilient during recession. Operating margins had remained above 10 per cent, having reached a peak of 18 per cent in 1990.

The company now has operations in Yorkshire, Hampshire, Dorset and the south-east Midlands. It expects to have sold about 850 homes by the end of March.

This is expected to rise to between 1,200 and 1,500 next year, and then to 1,800.

The cash raised by the issue will help the group increase the number of plots with planning permission it owns from 3,000 to 4,000.

## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Comps - pending dividend	Total for year	Total last year
Abbey National	8.85	May 19	7.7	14	11.5
Admiral	4.3	May 6	3.7	6.3	5.4
ASW	3	May 17	3	6	6
Cowie (T)	5.51	Apr 14	4.25	7.85	6.25
Flem Mercantile	1.075	May 3	1.075	6.7	6.7
Gen Accident	17.5	July 1	17.05	27.5	26.75
Inveresk	3.5	Apr 11	-	3.5	-
Kalon	2.9	May 2	2.2	4.2	3.2
Murray Income	4.3	Apr 22	4.15	11.5	10.9
Palatine	1	Apr 1	2	3	3
Scottish Eastern	1.06	May 10	1.02	1.58	1.52
Stclair (Wm)	1.7	Apr 5	1.7	-	7

Dividends shown prices per share net except where otherwise stated. (N) increased capital.

## Rolls-Royce Power sells Victor

By Simon Davies

Rolls-Royce Power Engineering is selling Victor Products, its specialist lighting subsidiary, through a £10m management buy-in backed by 3i, the venture capital group.

Mr Keith Jordan, a former divisional managing director at GEC, will take over as chief executive of the engineering company.

Victor Products, which was a listed company until February 1988, is raising £6m through equity finance and £6m through bank debt, to cover the costs of the purchase and build up working capital.

The new management will own 20 per cent of the equity, and the remainder has been underwritten by 3i, which is likely to bring in two other venture capital groups.

Victor Products is based in north-east England and manufactures hazardous area lighting, primarily for the mining and oil and gas industries.

Its reliance on the mining industry has been heavily reduced since the 1980's, although British Coal remains a sizeable customer. It has also developed subsidiaries in South Africa and the US.

Mr Jordan plans to introduce new lighting products and expand the company's export markets, which currently account for only 10 per cent of domestic production.

Victor Products has had a turbulent recent history. It was bought out for £13.8m by Northern Engineering Industries in January 1988 and a year later, its parent company was taken over by Rolls-Royce.

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NOTICE OF REDEMPTION  
EASTMAN KODAK COMPANY  
LIQUID YIELD OPTION NOTES DUE 2011  
(ZERO COUPON-SUBORDINATED)  
CUSIP NUMBER 277461 BA 6

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of October 1, 1991 between EASTMAN KODAK COMPANY ("Kodak") and THE BANK OF NEW YORK, as Trustee ("Trustee"), KODAK has elected to redeem on April 1, 1994 (the "Redemption Date") all of its Liquid Yield Option Notes Due 2011 (Zero Coupon-Subordinated) (the "Notes") at a Redemption Price of \$312.14 per \$1,000 principal amount of a Note at maturity (the "Redemption Price"). The Redemption Price consists of, for each \$1,000 principal amount of a Note at maturity, the Note Issue Price of \$285.08 and accrued Original Issue Discount of \$47.06. Unless Kodak defaults in making the redemption payment, Original Issue Discount on Notes called for redemption ceases to accrue on and after the Redemption Date.

Registered Notes called for redemption must be surrendered to The Bank of New York, as Paying Agent, to collect the Redemption Price. Bearer Notes called for redemption must be surrendered to a Paying Agent outside the United States to collect the Redemption Price.

The Notes are convertible into Common Stock of Kodak at the Conversion Rate of 5.944 shares of Common Stock for each \$1,000 principal amount of a Note at maturity. Notes called for redemption may be converted at any time before the close of business on the Redemption Date. The closing price of a share of Common Stock on the New York Stock Exchange Composite Tape on February 25, 1994 was \$42.38.

Registered Notes may be surrendered for payment of the Redemption Price, or may be surrendered for conversion, at the following addresses of the Bank of New York, as Paying and Conversion Agents:

## REDEMPTION ADDRESSES

By Mail:  
The Bank of New York  
P.O. Box 11249  
Church Street Station  
Bond Redemption Unit - 11E  
New York, NY 10286

By Hand:  
The Bank of New York  
Securities Window, Street Level  
Attn: Bond Redemption Unit - 11E  
101 Barclay Street  
New York, NY 10286

## CONVERSION ADDRESSES

By Mail:  
The Bank of New York  
P.O. Box 11003  
Church Street Station  
Fiscal Agency - 7E  
New York, NY 10286

By Hand:  
The Bank of New York  
Corporate Trust Windows-Street Level  
Attn: Fiscal Agency - 7E  
101 Barclay Street  
New York, NY 10286

Bearer Notes may be surrendered for payment of the Redemption Price, or may be surrendered for conversion, at the following addresses of Citibank, N.A. or Citicorp (Luxembourg) S.A., as Paying and Conversion Agents:

Citibank, N.A.  
Citibank House  
136 Strand  
London WC2R 1FB

Citicorp (Luxembourg) S.A.  
16 Avenue Marie Thérèse  
L-2013 Luxembourg

To convert a Note, a Holder must (1) complete and, in the case of a Registered Note, manually sign the conversion notice on the back of the Note (or complete and manually sign a facsimile of such notice) and deliver such notice to a Conversion Agent; (2) surrender the Note to a Conversion Agent; (3) furnish appropriate endorsements and transfer documents if required by a Conversion Agent; Kodak or the Trustee; and (4) pay any transfer or similar tax, if required.

If you have any questions about redemption or conversion procedures with respect to Registered Notes, you may direct them to The Bank of New York addresses as indicated above or call 1-800-324-4458. If you have any questions about redemption or conversion procedures with respect to Bearer Notes, you may direct them to Citibank, N.A. and Citicorp (Luxembourg) S.A. as indicated above.

## DO NOT SEND NOTES TO KODAK

All questions as to the validity and acceptance for redemption or conversion of any Note will be determined by Kodak, whose determination will be final and binding.

March 2, 1994

EASTMAN KODAK COMPANY  
By The Bank of New York,  
as Trustee



## COMPANY NEWS: UK

Margins improved by focusing on higher value-added products

## Inveresk turns in 60% rise to £9.26m

By James Burton,  
Scottish Correspondent

Inveresk, the Scottish speciality paper manufacturer which floated on the Stock Exchange last June, made pre-tax profits of £9.26m in the 52 weeks to December 4 1993.

The result was a 60 per cent improvement on the £5.79m recorded in 1992. In both years the company incurred a loss of about £900,000 on discontinued activities.

Turnover on continuing activities increased by 3 per cent to £90.5m (£87.9m). The company attributed part of its improved profits to the ending last year of unprofitable commodity papermaking at its mill at Inverkeithing, Fife.

By focusing on higher value-added products and turning round its fine paper business, operating margins have been increased to more than 10 per cent, according to Mr Stefan Kay, managing director.

Mr Kay said that the recovery in the UK paper market was "nervous, patchy and uneasy."

Confidence in the German market has taken a serious knock during the year because of recession, though sales of Inveresk's products held up well.

Trading elsewhere in Europe was satisfactory, Mr Kay added, while sales to east Asia and the Americas continued to be encouraging and with considerable scope for the future.

Inveresk invested £7.2m in plant improvements, paid for out of cash flow, and plans to invest a further £8.5m in 1994.

Earnings per share were 18.5p (11.5p) and a final dividend of 3.5p is recommended. There was no interim dividend and Inveresk said on flotation that the final dividend would be two thirds of a normal dividend.

## ● COMMENT

Inveresk is a solid company with experienced management in a moderately profitable niche of the paper market. Factors which helped push its shares up from last June's issue price of 150p to 220p, before adding another 7p to 230p yesterday. Its stated aim is to become "Europe's leading speciality paper company", and it hopes to find a suitable target for acquisition in Europe or the UK. With £41m on its balance sheet and an unused borrowing facility of £20m, it should be well equipped to do so. Inveresk may be able to profit from higher market prices and exploit its 20 per cent unused capacity, but could also suffer if wood pulp costs, now beginning to increase, go up further. Last year it enjoyed a tax charge of only 9 per cent because of allowances from past losses; this year, however, the tax charge will be 28 per cent, and analysts believe pre-tax profits up to only £10m will be possible. That would mean reduced earnings per share of 13.7p, giving a multiple of 16.7 on yesterday's closing price of 230p. On that basis the shares look fairly priced.

## Acquisitions help Kalon increase to £18.8m

By Peter Pearce

Building the general trend in the UK paints market, Kalon, the paints group, again achieved sharp profits growth and increased market share in 1993 on turnover boosted largely by acquisitions.

Under FRS 3, pre-tax profits jumped 77 per cent to £18.8m (£10.8m), though stripping out 1992's £2.62m exceptional charges - £1.56m for the abortive bid for Manders, then a rival paints maker, and £1.06m on the disposal of the chemicals division - reduces the advance to 42 per cent from £13.2m. Of the £18.8m profits, £4.22m came from acquisitions, mainly Novodec, the French private-label paints maker bought for £22m in February 1993.

Turnover grew by 34 per cent to £142.4m (£106.3m) including £34.1m from acquisitions. There was a turnaround in interest - from £860,000 receivable to £150,000 payable. Mr Mike Hennessy, managing director, said this was because of the debt acquired with Novodec, higher financing charges and lower UK rates. Cash balances stood at £10.2m at the year-end, against £12.3m.

In the decorative division, where sales were flat at £36.1m and profits up 6 per cent at

£13.5m, retail paint sales slipped 1 per cent in both volume and value terms, while the total market fell by 7 per cent. Trade paint sales rose 15 per cent in volume and 11 in value as the market fell by 4 per cent in value. Total market prices fell by 4 per cent as the DIY sheds engaged in aggressive promotional activity.

Kalon said there was evidence this had abated and that prices were now more stable, though raw material prices were edging up.

The opening of 12 more Leyland trade centres is planned for 1994, to make 87 in all. The aim is for a chain of 110.

In the specialist products division, now called Vallance since February's acquisition of that company for £5.5m, sales were £6.5m and profits £500,000.

Mr Hennessy said that total sundry sales were £35m-£36m with £19m paint-related. The Vallance-enhanced division is expected to have sales of about £12m-£20m next year, with total sundries sales of up to £40m.

With the French market - where Mr Hennessy said prices were crazy - up 10.5 per cent in volume, Novodec rose by 19.5 per cent. The Leyland brand was launched into France last week coinciding

with the opening of the first trade centre in Lille.

Earnings under FRS 3 advanced 91 per cent to 9.88p (£1.7p), or, otherwise, by 37 per cent from 7.2p. A final dividend of 2.9p makes at 4.2p total, up 31 per cent.

## ● COMMENT

The inexorable rise of Kalon continues. And there is nothing in the tea-leaves to suggest that this progress will falter. This is good news for Mr Hennessy's own infamous and whopping triennial bonus scheme, now due. In private paints - a mature business, which Kalon had a big hand in developing - it has done well in difficult market conditions, witness ICI's four comments last week. Trade paints - a developing business, especially in France - did even better. Expect both organic and acquisition-led growth in Europe to build on the French progress. In sundries - a newish market worth up to £300m - Kalon has a lot to play for, while other territories in Europe offer the group opportunities to replicate what it has achieved in the UK and increasingly in France. Forecast pre-tax profits for 1994 are between £21.5m and £22.5m, giving a p/e of between 16.3 and 15.5, which is cheap.

## TR Euro Growth launches issue

By Bethan Hutton

TR European Growth Trust, a specialist smaller companies investment trust, is planning to raise new capital through a conversion share issue.

The trust currently has assets of about £73m. The C share issue is understood to be likely to increase that by at least one third, but if demand is there, the trust's size could double.

TR European Growth invests mainly in quoted companies capitalised at less than £200m, though it also has a small portfolio of unquoted companies, particularly ones which are likely to seek a listing in the future.

The company said there were clear signs of recovery in smaller company share prices, a feeling which appeared to be shared by other fund managers.

The non-UK smaller companies investment trust area is highly active at the moment, with the launch of the Piper European Smaller Companies Trust and the Govett Global Smaller Companies Trust, and another C share issue under way from Fleming European Fledgling.

"We feel very strongly that the European story is something that is going to go through over the next couple of years, and smaller companies are going to out-

perform the bigger ones," said Mr James de Saumarez, managing director of Henderson Touche Remnant Investment Trust Management.

TR European Growth's net asset value grew by 31 per cent to 154.3p (98.2p) per ordinary share over the half year to December 31.

Earnings per share were up 66 per cent to 1.01p (0.61p). The trust pays a single dividend at the year end.

## Leeds &amp; Holbeck declines 13%

Leeds & Holbeck Building Society saw pre-tax profits decline 13 per cent - from £8.54m to £7.72m - over the 12 months to December 31.

The outcome, which masked a sharp improvement in the society's second half, was struck after a marginally reduced loan loss provision of £19.4m (£19.8m).

Total assets improved to £2.45bn (£2.43bn). The cost-income ratio rose from 39.9 per cent to 41.5 per cent.

## Scottish Eastern boosts net asset value 33% to 105.4p

The net asset value per share of Scottish Eastern Investment Trust rose by 33 per cent over the year to January 31, from 79.2p to 105.4p.

After a £1m fall in the tax charge to £3m, net revenue for the 12 months advanced to

£10.5m compared with £10.2m, producing earnings per share up from 1.59p to 1.65p per share.

The proposed final dividend is lifted to 1.06p (1.02p) for an increased total of 1.58p (1.52p).



## BANCA COMMERCIALE ITALIANA

A Joint Stock Company with Registered Office in Milan, Italy. It is a member of the Group of Companies listed by the Court of Milan - Capital Stock L. 1,650,000,000,000 - Statutory Reserve L. 420,000,000,000 - Banca Commerciale Italiana Group - Italian Register of Banking Groups No. 2022/4

All Holders of Common Stock of Banca Commerciale Italiana (hereinafter, the "Bank") are invited to attend the Ordinary and Extraordinary General Meetings at 10 a.m., on 12th March 1994, in Milan, Piazza Belgiojoso 1 and, if necessary, for a second meeting on 15th March 1994, at the same time and place, to consider and act upon the following

## Agenda

## Ordinary Part

- Presentation of Balance Sheet at 31st December 1993, Board of Directors' management Report, Auditors' Report and related resolutions.
- Any other business.

## Extraordinary Part

- Proposal for merger of "ASTRA IMMOBILIARE Srl - Milan" and "CI TRE Srl - Milan" with the Banca Commerciale Italiana SpA. Determination of merger conditions and formalities. Relevant resolutions and delegation of powers.

Holders of Common Stock entitled to vote may attend the General Meeting provided that they have deposited their shares at any Branch of the Bank or at Monte Titoli SpA at least five days before the date of the General Meeting, in accordance with the provision of Art. 4 of Law No. 1745 of 29th December 1962. This condition also concerns all Shareholders who are already registered at the Shareholders book.

Shareholders may arrange to be represented at the Shareholders' Meeting - in compliance with the provisions of art. 2372 of the Civil Code - by means of an ordinary proxy statement with signature authenticated by a Member of the Board, a Bank Director or Official, a Notary or a Consular Authority.

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The Interest payable on the relevant Interest Payment Date, August 31, 1994 will amount to US\$ 106.42

for Debentures of US\$ 10,000 nominal and US\$ 1,054.20 for Debentures of US\$ 100,000 nominal.

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## General Accident

## SUBSTANTIAL IMPROVEMENT

## 1993 RESULTS

	Year to 31.12.93 Unaudited £m	Year to 31.12.92 Audited £m
General Premiums	4,181.8	3,831.5
Net Investment Income	493.2	464.8
Underwriting Loss	(229.0)	(510.1)
Life Profits	49.1	34.8
Profit/Loss before Taxation	294.9	(29.3)
Profit/Loss attributable to Shareholders	244.6	(26.9)
Earnings per Ordinary Share	50.0p	(7.0p)
Dividend per Share	27.50p	26.75p

- Pre-tax profit of £294.9m is after providing £8.9m for staff profit sharing.
- UK underwriting profit of £59.7m - an improvement of £234.9m.
- Encouraging improvement in the United States.
- Results in Canada adversely affected by storm losses and reserve strengthening.
- Good results from the Pacific.
- Strong performance from Life operations.
- Final dividend increased by 4.4% to 17.80p per share making a total of 27.50p per share, covered 1.8 times.

Nelson Robertson, Group Chief Executive, commented:  
"We start 1994 in a strong position and look forward to the remainder of the year with confidence".

## General Accident plc

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Notice is hereby given that the interest rate on the Class A-1 Bonds for the interest period 1st March, 1994 through 1st June, 1994 is 4.35% per annum.

By: Bankers Trust Company, as Trustee.

#### £140,000,000 HMC MORTGAGE NOTES 6 PLC

#### Class A Mortgage Backed Floating Rate Notes due September 2030

Notice is hereby given that there will be a principal payment of £2,350,000 per Note on the interest payment date March 21, 1994. The principal amount outstanding per Note will be £97,650.00.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank  
March 1, 1994

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## COMPANY NEWS: UK

### UK housebuilding lifts Raine 24% to £3.4m

By Andrew Taylor,  
Construction Correspondent

Pre-tax profits of Raine, the housebuilder and contractor, increased by 24 per cent from £2.7m to £3.4m over the six months to December 31.

The company was helped by a strong performance from UK private sector housebuilding, which increased operating profits by 80 per cent. The interest charge was also sharply reduced, from £2.0m to £0.8m.

The figures, however, were dented by a £1.4m turnaround in the California housing operation, which moved from a £819,000 profit to a £606,000 loss. As a result, Raine's operating profits were only marginally higher at £4.61m (£4.55m).

Earnings per share rose from 0.83p to 1.09p but, as expected, the group halved its interim dividend to 1p.

Turnover was virtually unchanged at £307m (£306.1m).

Mr Peter Parkin, chairman, said the company had lost sales following the Los Angeles earthquake, which had not damaged any of its housing developments, but business was picking up again.

Private sector house sales in the UK rose by 23 per cent to 803. The group had increased margins by reducing sales incentives and the cost of part exchange deals had halved.

Social housing profits fell in spite of a 21 per cent increase in sales, from 482 to 584 homes. Volumes should increase further in the second half with Raine benefiting from its recent contract with a consortium of Kent housing associations to build more than 1,500 homes over three years.

Co-ordinating and commercial property profits, affected by low margins and lower interest on cash payments, dipped at the pre-tax level from £817,000 to £715,000.

The shares fell 4p to 88p.

#### COMMENT

Raine's Californian problems, its exposure to recession-hit UK contracting and uncertainty over the dividend has distracted attention from a creditable performance by the UK housebuilding operations. Currently, operating margins on private house sales are about 12 per cent and still about 6 per cent for social housing. Increased sales should mean that social housing profits for the year will be at least maintained. Pre-tax profits of £1.4m in 1993-94 would put the group on a prospective p/e of more than 20 - falling to 14 times earnings on £20m in 1994-95. Over the past 12 months the shares have underperformed the sector by 50 per cent. For a pure UK housebuilder Raine might look cheap. The question is how quickly the Californian housebuilding and UK contracting businesses may recover.

### Dawson to make £50m provision for US shake-up

By David Blackwell

Dawson International, the Edinburgh-based textile group, is closing its fleece and jersey business in the US and taking a £50m exceptional provision for the year to March 26 1994.

The rationalisation was announced yesterday following an independent review of Dawson's US businesses, which had sales of £214m in 1993-94, about half the group total.

Last month the shares fell to 134p after the group warned that difficult US trading conditions would lead to "a very substantial exceptional provision this year."

Yesterday they closed down 5p at 153p.

Dawson is also considering the sale of Dawson Home Fashions, which makes shower curtains and bath mats.

Although it had 60 per cent of the US market last year, DIF has been hit badly by import penetration. Operating profits in the six months to September 25 amounted to just £300,000 on turnover of £30.4m.

The fleece and jersey business lost £8.9m on sales of £29.1m in the same period. Known as JE Morgan Apparel, it operates 12 plants and has 2,000 employees.

Sir Ronald Miller, executive chairman, said the three plants making fleece, which is used in jogging suits, would be closed.

Three of the remaining plants are dedicated to making jersey, which is used for T-shirts and underwear. These would be reorganised, along with the jersey-making operations of the mixed plants, with a view to a possible sale.

Dawson went into the jersey and fleece business in 1989, and was a supplier to Kmart, the US retailing group. Sir Ronald said the business had been hit by excess capacity in the US, imports, lower sales in the recession and the battle between US retailers. He pointed out that Kmart lost \$1bn (£600m) in the fourth quarter.

Goodwill of £42m from the purchase of JE Morgan will need to be written off through the profit and loss account.

A further £14m will need to be written off if the shower curtain business is sold.

The group's net debt at March 26 is expected to be about £70m.

It also has £27.9m of convertible preference shares.

Dawson has two further businesses in the US, Morgan and Duofold, which make thermal underwear and other clothing. The group expects this year's results to be better than last year's.

Sir Ronald said the rationalisation would enable the company to concentrate on its profitable US operations.

### Silentnight shares lose 18p on warning

By Andrew Bolger

Shares in Silentnight Holdings fell 18p to 355p yesterday after Europe's biggest manufacturer of beds warned that its profits for the year to January 31 would be "slightly below average market expectations".

Analysts had been forecasting pre-tax profits of about £13.5m. However, the Lancashire-based group said that its annual results on May 3 would be only marginally ahead of last year's figure of £12m.

Silentnight said it intended to hold the final dividend of 5.25p, to give an unchanged total of 8p.

The group said that in the

UK it had maintained volume in its beds division and increased volume in cabinets, but margins had been under pressure.

The previously loss-making US business was continuing to recover, and the German subsidiary, Matthias Eichen, bought in 1992 for £3.2m - was showing a very satisfactory return on investment.

The group said it had been conscious of the need to inform the market at the same time that trading had been disappointing. One factor in the decision had been the Stock Exchange's recent guidance on the disclosure of price-sensitive information.

### Three buys for IMC as profits fall

IMC Industries, the USM-quoted soft drinks, video tapes and in-flight entertainment company, reported pre-tax profits down from £202,000 to £168,000 in the six months to October 31.

The company also announced the purchase of Eurotrade (UK), Crestion Entertainment and 50 per cent of Worldwide Trading for £143,000 cash and 25 per cent of the enlarged share capital of IMC Video. All are involved in marketing videos.

IMC has the option to acquire the 25 per cent at a profit-related price not exceeding £450,000. Eurotrade and Crestion have net assets of about £22.5m. Worldwide has only recently begun trading.

All three companies are controlled by Mr Brian Phipps, a director of IMC.

The company, of which the ultimate holding company is Cursitor (Fifty Two), said demand for its two main products, soft drinks and video tapes, had remained weak.

Further rationalisation had taken place at Alpine Soft Drinks and new titles introduced by IMC Video.

Turnover was £2.73m (£2.97m). Earnings per share came out at 0.07p (0.09p).

### Sanderson/ICL venture

Sanderson Electronics, the software supplier, has entered into a joint venture with ICL, the information technology company, through the acquisition of 80.1 per cent of ICL Commercial Systems for £400,500.

The consideration will be satisfied by the issue of 121,364 shares.

In addition, Sanderson has issued 278,636 shares to ICL for cash at 330p each to raise

£919,500, which will be used to repay £569,500 of inter-company debt to ICL and provide working capital for Commercial Systems.

A further consideration, of up to £1.95m, is profit related and may be paid in shares.

Sanderson and ICL have agreed not to dispose of any Commercial Systems shares without the other's consent until September 30 1995.

#### NEWS DIGEST

### Newmarket realises more assets

Net asset value at Newmarket Venture Capital was unchanged at 63p over the 12 months to December 31.

The split between investments and net current assets, however, was greatly different as the company continued its programme of asset realisation begun in 1990.

At the end of the period investments made up 83 per cent (86 per cent) of net assets with quoted shares and unquoted investments falling from £16.9m to £11.8m.

There was a pre and post-tax loss for 1993 of £157,000 (£132m) giving losses per share of 0.43p (3.65p).

Details of the company's voluntary liquidation and distribution of assets are expected to be sent to shareholders in May this year.

### Refinancing of Wm Hill achieved

Brent Walker has achieved a refinancing of the £335m loan due to lenders to his William Hill betting shop chain. It has also secured the agreement of its term loan lenders for changes in conditions necessary because of the group's deteriorating balance sheet.

Last week holders of its variable rate convertible notes accepted changes in their terms, principally extending the period when interest will be paid in preference shares rather than cash.

Thames Water has clinched a \$500m (£342m) deal to develop water and waste infrastructure in Mexico City as part of a consortium with two Mexican companies.

Thames is expected to invest a total of about £50m in the joint venture, which has won a 15 year concession for the municipality of Naucalpan. The first phase will require investment of about \$15m.

The UK water company will have a 45 per cent stake, along with Tribasa, a Mexican civil engineering group, while Epyssa, a specialist water contractor, will own 10 per cent.

### Thames Water \$500m deal

The company has sought to quell speculation that it was withdrawing from negotiations in Russia by announcing that it was in advanced discussions with a number of parties.

Bula raised £2.3m (£2.2m) through a placing earlier this year.

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The UK water company will have a 45 per cent stake, along with Tribasa, a Mexican civil engineering group, while Epyssa, a specialist water contractor, will own 10 per cent.

### Ocean sells liquid storage arm

Ocean Group, the industrial and distribution services company, has completed the sale of its bulk liquid storage operation, Panoccean Storage & Transport, for \$7m.

Tate & Lyle, through its United Molasses division, has bought Panoccean Hull and

Panoccean's Birkenhead terminal for £3.7m.

GATK Terminals has bought Panoccean's Eastham terminal on Merseyside.

The UK disposals follow the sale of Panoccean's non-UK activities in March last year.

#### MONTHLY AVERAGES OF STOCK INDICES

	February	January	December	November
FT-SE Actuaries Indices				
100 Index	3306.4	3431.3	3313.7	3111.5
Mid 250	4043.2	3852.7	3652.1	3456.2
250 Share	1718.5	1727.1	1640.5	1550.7
Non-Financials	1618.9	1618.7	1733.10	1643.34
Financial Group	2908.28	2619.71	1300.30	1182.41
All-Share	1708.09	1710.20	1628.98	1535.11
Eurotrack 100	1455.15	1484.54	1423.55	1348.82
Eurotrack 200	1555.11	1559.53	1456.00	1414.20
FT Indices				
Government Securities	103.92	106.50	105.56	103.12
Fixed Interest	128.14	132.32	130.14	125.87
Ordinary	2814.4	2820.1	2492.5	2357.9
Gold Mines	2054.78	2270.38	2133.78	2021.88
SEAO Bargains	37.205	40.838	33.915	26.057
High/Low Feb close				
FT-SE 100	3620.3 (2nd)		3267.5 (2nd)	
FT-SE Mid 250	4152.6 (2nd)		3919.9 (2nd)	
FT-SE A 250	1778.3 (2nd)		1657.6 (2nd)	
FT-SE All-Share	1764.1 (2nd)		1650.46 (2nd)	
Ordinary	2713.2 (2nd)		2528.1 (2nd)	

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Copies of the Listing Particulars are also available during normal business hours for collection only from the Company Announcements Office, the London Stock Exchange, Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2 from the date of this notice up to and including 4th March, 1994.

2nd March, 1994

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## Admiral ahead 16% to £4.6m

**By Alan Cahn**

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the relevant interest payment date  
May 31, 1994 will be £018.52 per  
£27,717.81 principal amount of  
Notes.

By The Chase Manhattan Bank, N.A.  
London, Agent Bank

March 2, 1994

 CHASE



## COMMODITIES AND AGRICULTURE

## EU reforms lift farmers' incomes

By Alison Maitland

Reform of the common agricultural policy boosted farm incomes last year, the European Commission said yesterday.

The commission published initial estimates based on accounts from 58,000 farms across the European Union which showed an overall decline in income of 1.3 per cent last year. But sectors subjected to the 1992 MacSharry reforms moved strongly against the trend.

According to the Eurostat figures, incomes in the beef and cattle sector rose by as much as 25 per cent last year, compared with 1993, while specialised cereal farmers enjoyed an 11 per cent increase and dairy farmers saw a 7 per cent rise.

Mr René Steichen, EU farm commissioner, said the commission's analysis of the figures "clearly indicates that the production sectors subject to reform experienced a significant income increase in 1993".

This runs counter to popular belief among farmers that the reforms, which cut price supports to reduce production and introduced direct income payments or livestock payments in compensation, would be financially painful.

Mr Steichen accepted that

the reforms were not the only reason why incomes had risen but added: "The figures nonetheless confirm the positive benefits for farmers of improving market balance, as well as the income stabilisation effect of direct payments".

The agricultural sectors that suffered most last year receive only light support from the CAP or have not yet been reformed. Pig and poultry farmers took a 37 per cent knock to their incomes while horticulturalists were down 8 per cent and wine-makers suffered a 14 per cent decline.

Incomes varied enormously between member states, according to the Eurostat figures, with a rise of over 15 per cent in the UK contrasting with a fall of nearly 15 per cent in Germany and 11.7 per cent in the Netherlands. The UK benefited from currency devaluation, which pushed up the value of export payments, and is heavily dependent on sectors that underwent reform. Germany and the Netherlands produce a lot of pig meat, wine and vegetables between them, the sectors that suffered last year.

The commission qualified the overall income drop of 1.3 per cent, pointing out that farmers received only 86 per cent of the direct payments due to them during 1993.

## MARKET REPORT

## Coffee and cocoa steady

London Commodity Exchange COCOA and COFFEE futures showed steady gains yesterday after Monday's sharp declines, but traders described trading as "unenthusiastic". May delivery cocoa ended \$7 up at 917 a tonne after dipping to 905 early on. Most traders thought support at \$900 was likely to hold, though some thought a slide to \$870 possible unless fresh output buying returned.

The coffee market enjoyed light support from a further drop in US certified stocks and

the May price closed at \$1,233 a tonne, up \$10.

At the London Metal Exchange COPPER set a generally lower tone.

Compiled from Reuters

LME WAREHOUSE STOCKS (No at Monday's close)	
Aluminium	47,700
Copper	25,500
Lead	100,000
Nickel	10,000
Steel	1,000,000
Zinc	100,000

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

## ALUMINIUM, 99.97% (5 per tonne)

	Close	3 mths
Cocoa	1282.5-3.5	1309-7
Previous	1282.5-3.5	1311-0
High/Low	1283.5-3.5	1311/1302
AM Official	1283.5-3.5	1307.5-0.0
Kerb close	280.503	1303-04
Open int.	47,549	
Total daily turnover	47,549	

## ALUMINIUM ALLOY (5 per tonne)

	Close	3 mths
Cocoa	1140-6	1160-6
Previous	1142-5	1162-5
High/Low	1145-9	1165-9
AM Official	1145-9	1160-70
Kerb close	3591	
Open int.	2,591	
Total daily turnover	2,591	

## LEAD (5 per tonne)

	Close	3 mths
Cocoa	455.5-0.5	470-1
Previous	471.5-0.5	482-6
High/Low	479/488	479/488
AM Official	482.5-3.5	477-7.5
Kerb close	34,283	473-4
Open int.	6,592	
Total daily turnover	6,592	

## NICKEL (5 per tonne)

	Close	3 mths
Cocoa	5905-15	5955-65
Previous	5905-70	5915-20
High/Low	5900/5925	5915/5925
AM Official	5930-0	5975-0
Kerb close	51,758	5955-78
Open int.	7,154	
Total daily turnover	7,154	

## TIN (5 per tonne)

	Close	3 mths
Cocoa	5410-15	5445-50
Previous	5445-50	5490-50
High/Low	5445/5420	5490/5420
AM Official	5465-70	5490-50
Kerb close	20,035	5445-50
Open int.	4,943	
Total daily turnover	4,943	

## ZINC, special high grade (5 per tonne)

	Close	3 mths
Cocoa	945-6	955-4-0
Previous	947-9	955-4-0
High/Low	947-9	955-4-0
AM Official	947-9	955-4-0
Kerb close	106,489	955-6
Open int.	16,142	
Total daily turnover	16,142	

## COPPER, grade A (5 per tonne)

	Close	3 mths
Cocoa	1895-8	1899-70
Previous	1895-8	1899-70
High/Low	1895-8	1899-70
AM Official	1895-8	1899-70
Kerb close	1895-8	1899-70
Open int.	240,294	
Total daily turnover	240,294	

## LME AM Official 5% rate: 1.4910

## LME Closing 5% rate: 1.4930

## Spot 1.4955, 3 mths: 1.4984, 6 mths: 1.4973, 9 mths: 1.4973

## HIGH GRADE COPPER (COMEX)

	Close	3 mths
Cocoa	55.75	55.75
Previous	55.75	55.75
High/Low	55.75	55.75
AM Official	55.75	55.75
Kerb close	55.75	55.75
Open int.	55.75	55.75
Total daily turnover	55.75	55.75

## PRECIOUS METALS

## LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

## Gold (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
Open int.	381.10	381.10
Total daily turnover	381.10	381.10

## Silver (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
Open int.	381.10	381.10
Total daily turnover	381.10	381.10

## Platinum (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
Open int.	381.10	381.10
Total daily turnover	381.10	381.10

## Palladium (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
Open int.	381.10	381.10
Total daily turnover	381.10	381.10

## LME AM Official 5% rate: 1.4910

## LME Closing 5% rate: 1.4930

## Spot 1.4955, 3 mths: 1.4984, 6 mths: 1.4973, 9 mths: 1.4973

## HIGH GRADE COPPER (COMEX)

	Close	3 mths
Cocoa	55.75	55.75
Previous	55.75	55.75
High/Low	55.75	55.75
AM Official	55.75	55.75
Kerb close	55.75	55.75
Open int.	55.75	55.75
Total daily turnover	55.75	55.75

## PRECIOUS METALS

## LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

## Gold (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
Open int.	381.10	381.10
Total daily turnover	381.10	381.10

## Silver (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
Open int.	381.10	381.10
Total daily turnover	381.10	381.10

## Platinum (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
Open int.	381.10	381.10
Total daily turnover	381.10	381.10

## Palladium (Troy oz)

	Close	3 mths
Cocoa	381.10	381.10
Previous	381.10	381.10
High/Low	381.10	381.10
AM Official	381.10	381.10
Kerb close	381.10	381.10
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## PRECIOUS METALS

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(Prices supplied by N M Rothschild)

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	Close	3 mths
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## Electricity costs may hit Elkem smelters

By Karen Fossli in Oslo

Elkem, the Norwegian light metals producer, said yesterday that temporary lay-offs were possible at some of its smelters because domestic spot market prices for electricity have risen more than double to Nkr4.48 a kWh in the past two days.

An official said the company had been considering increasing output at ferro-chrome and ferro-silicon smelters. But it was now reviewing the plan and might have to reduce capacity even for aluminium.

Elkem consumes about 8.5bn kWh of electricity annually for light metals production but on an annual basis it buys just 10 per cent of its electricity needs in the spot market. The remainder is supplied under long-term contracts and from its own generating plants.

Norway's electricity market has been undergoing reform during the past couple of years and is considered one of Europe's most liberal. Because of this the government has refused to intervene to stem rising prices.

Energy analysts say prices have risen because of the unusually cold weather and speculation that electricity suppliers have not secured large enough trading agreements with neighbouring Sweden and Denmark to cover a shortfall in domestic production.

The government said that it would allow the ceilings for imports of electricity to be lifted so that suppliers could cover any shortfall in domestic production. It has also consulted Swedish and Danish authorities on the issue.

Average prices for electricity so far this year have been Nkr0.18 a kWh, according to government figures, but have shot up in the past two days to around Nkr0.48 during the day and Nkr0.55 in the evening.

## UK set to take lead in North Sea oil stakes



## LONDON STOCK EXCHANGE

## MARKET REPORT

## Equities hit hard by renewed setback in bonds

By Terry Byland,  
UK Stock Market Editor

Another heavy sell-off in the bond markets yesterday wiped out the attempted recovery of confidence in UK equities. Late afternoon saw share prices tumbling on all sides as global bond markets reacted with heavy falls to a sharp rise in the February price index compiled by the US National Purchasing Managers Association (NPM).

The FT-SE 100 index fell 57.5, or 1.7 per cent, to 3,270.6, the day's low. Selling increased as the market fell away but trading volume remained fairly moderate. With the pressure largely focused on the blue chip leaders, the FT-SE Mid 250 index lost only 15.4 to 3,944.6.

The NPM report was the last straw for a stock market which has

been firmly under the heel of the bond markets. An initial firming in equities was abruptly reversed by a downturn in European bonds on disappointment with the outcome of the variable rate tender in Germany. Then came the upward revision of the fourth-quarter US GDP figure, which gave the first hint of renewed inflation concern.

But the Pootle was down only 19 points at that stage. It was the NPM price index which turned the cold wind blowing through the markets into a hurricane. As on Thursday, share prices were at the mercy of bonds and, with stock index futures setting the pace, simply reacted to both short and long dated gilts plunged. Weakness in short-dated gilts implied negative views on base rate prospects, underlining the reversal of sentiment

which lies beneath the market setback. A sizeable trading programme, weighted towards the sell side, had appeared in the market before the collapse began and probably had little effect. Share quotations were cut repeatedly by marketmakers struggling to avoid speculative sellers and fund managers trying to reduce exposure.

At Kleinwort Benson Securities, the London merchant bank and securities house, Mr. Albert Edwards pointed out that the NPM index is linked to commodity prices, making it a significant indicator of inflationary pressures ahead in the US. London traders saw yesterday's fall in US bonds as a sign that prospects of further tightening in Federal Reserve policy had come several steps closer.

The day's trading volumes of 720.8m shares through the Saeq network compared with 705.2m on Monday, when retail business was worth £1.38bn. While there has been no heavy selling of equities, it has been noted by the strategists that there has been no sign that cash taken out of gilts is seeking a home in the stock market.

Once again, the financial sector suffered severely as investors re-

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Key Indicators		Indices and ratios		Best performing sectors		Worst performing sectors	
FT-SE 100	3270.6	-57.5	-1.7%	1 Extractive	+1.2	1 Banks	-4.8
FT-SE Mid 250	3944.6	-15.4	-0.4%	2 Engineering, Vehicles	+0.2	2 Tobacco	-3.5
FT-SE-A 350	1880.9	-25.9	-1.4%	3 Pharmaceuticals	+0.1	3 Breweries	-2.1
FT-SE-A All-Share	1853.13	-22.38	-1.2%	4 Exploration & Prod	0.0	4 Insurance	-2.0
FT-SE-A All-Share yield	3.48	(3.49)		5 Water	-0.1	5 Merchant Banks	-1.9
FT Ordinary Index	2536.0	-28.1	-1.1%				
FT-SE-A Non Fin p/e	22.28	(22.51)					
FT-SE 100 Put Mar	3291.0	-85.0					
10 yr Gilt yield	7.31	(8.58)					
Long gilt/equity yld ratio	2.15	(2.14)					

## Setback in HK stocks

The London market's heavily traded Hong Kong orientated stocks were given the roughest of rides in a generally uncomfortable equity market yesterday as dealers responded to the 2.5 per cent slide in Hong Kong share prices.

Worst affected of the front line stocks was HSBC Holdings, which followed Monday's gradual post-results deteriora-

tion in its share price in London with a substantial retreat. Marketmakers said there was little support for HSBC shares throughout the day, with the stock price dropping to a low for the session of 88p at the close to leave a fall of 77p, or 8.1 per cent, after turnover of 6.1m shares. The Hong Kong-registered stock settled at 80.00 at 88p.

NatWest Securities was one broking house to emphasise worries about quality of earnings at the bank which it said could hold the shares back in the short term.

Upgrading its current-year numbers, NatWest said it expected a declining bad debts

charge because of recovering economies in the UK and US, scope for growth in net income, and a high level of asset disposal profits. For 1994, the broker lifted its forecast from £2.7bn to £2.8bn, and for 1995 to £3.07bn. It also forecast a 13 per cent increase in the 1994 dividend to 28.5p and is looking for a dividend total of 29p for 1995.

The fallout from HSBC impacted on other Hong Kong and Pacific Rim stocks such as Standard Chartered and Cable & Wireless. The former plunged 56, or 4.5 per cent, to 115p after turnover of 928,000 shares, with one of the London market's biggest securities

houses said to have tried to unwind a big long position in the stock just before the close of trading. C&W, the telecoms group, held up well compared with HSBC and Standard, finishing only 13 down at 46p on turnover of 5.4m shares.

Vodafone, the UK's biggest cellular telephone group, was one of only a handful of FT-SE 100 constituents to gain ground yesterday, responding to renewed US buying and news of further big increases in the group's subscriber base.

The group said net new connections to its network during

February were 36,561 and that it now served more than 1.13m subscribers. Vodafone's arch-rival in the cellular telephone business in the UK, Celtel, owned 60-40 by BT and the Securicor group, also revealed highly encouraging new subscriber figures. Celtel attracted 39,000 new customers to its service during February.

Vodafone shares rose up 7 1/2 pence to 60p in heavy turnover of 2.9m. BT shares, on the other hand, suffered from the general weakness across the market, with the "old" stock 3 1/2 off at 431 1/2 p and the "new" 4 down at 312 1/2 p.

An early upsurge in Abbey National after the bank revealed better than expected profits and a top of the range increase in the dividend, failed to hold and the bank's shares retreated to close sharply lower on the session.

But marketmakers were keen to point out that there had been very little selling pressure in the stock. "The numbers were excellent and the dividend was well above what could have been expected, but you cannot ignore a falling market when the market pounces, so will Abbey," was the comment from one trader.

The shares ended a volatile session 16 cheaper at 48p, having been as high as 51p immediately after the figures were announced. Turnover reached 9.7m shares.

Dealers reported heavy selling of the merchant banks late in the session and continuing worries about their exposure to big losses in bond markets

An upbeat trading statement from Grand Metropolitan provided a temporary relief to the downward pressure in the drinks sector, but the shares soon succumbed to the market trend and fell further during the afternoon. The stock finished 15 down at 48p after a hefty 8.2m traded.

Among other big fallers, Baxters tumbled 19 to 51p, Warrington & Dudley 13 to 50p and Whitbread 11 to 54p. Dealers said sentiment had been hit by reports that UK consumers will be allowed to telephone drinks orders to France for direct delivery.

Betting and hotel group Ladbrokes gained 2 1/2 to 21 1/2 p, 12m traded on expectations of good results tomorrow. Joint broker Smith New Court was also said to be making positive noises. Although a cut in the dividend is forecast by some analysts, more visibility is also being anticipated in the first set of results since the group's founder Mr Cyril Smith retired.

Granada was hit by further selling in the wake of the takeover of LWT and the shares fell 15 to 54p on turnover of 6.5m. LWT slid 17 to 70p.

Market fears on the outlook for interest rates led to weakness in international conglomerate Hanson leaving the shares trailing 4 to 27p.

Leading pharmaceutical stocks were generally firm on dollar considerations. Glaxo, with Parature Gordon positive, gained 4 1/2 to 63p. Wellcome, added 2 1/2 to 65p and Zeneca put on 7 to 77p.

A profit rise of 60 per cent

from Inveresk saw shares in the speciality paper group pence jump to 7 to 23p.

Dawson International slipped 5 to 15p after it announced it was pulling out of the loss-making US woolen business and would take a one-off exceptional provision of £5m for this year.

Furniture group Silentnight tumbled 38 after announcing that profits to the year ended in January would be below market expectations. The shares later recovered to close at 35p, a fall of 18 on the day. The company blamed margin pressures for the warning.

Boots was said to have been undone by a big US seller and the shares fell 14 to 53p. Yield buying lifted Dalgety by 3 to 47p.

Shares in British Steel fell 5 to 138 1/2 p, with 12m shares traded, after steel group ASW reported full-year figures below market expectations and warned of continuing overcapacity in the industry. ASW was unchanged at 19p.

International mining group KZC was among a handful of stocks that realised the market slide and closed 14 up at 87p, on volume of 6m, making it the best performing stock in the FT-SE 100. The shares were boosted by a firm gold price and the prospect of increased demand for copper.

## EQUITY FUTURES AND OPTIONS TRADING

The return of heavy selling in global bond markets brought another slide in stock index futures, following the release of US economic data, writes Joel Kibazo.

Dealers reported a dull morning after the March contract on the FT-SE 100 opened at 3,320. Light selling

FT-SE 100 INDEX FUTURES (LFFE) 225 per full index point									
	Open	Sell price	Change	High	Low	Est. vol	Open int.	Open int.	Open int.
Mar	3320.0	3251.0	-69.0	3320.0	3240.0	22102	58973		
Jun	3327.5	3264.0	-63.5	3324.0	3284.0	1024	14743		
Sep	3349.0	3285.8	-63.2	3349.0	3285.8	50	440		
Mar	3990.0	3933.0	-57.0	3994.0	3933.0	628	370		
Jun	3955.8	3930.0	-25.8	3960.5	3933.8	112	2687		
Jun	3943.5								

FT-SE 100 INDEX OPTION (LFFE) 3270.6 £10 per full index point									
	3100	3150	3200	3250	3300	3350	3400	3450	
Mar	178 1/2	126 1/2	84 3/4	52 1/2	33 1/2	16 1/2	11 1/2	6 1/2	3 1/2
Jun	181 1/2	129 1/2	87 1/2	55 1/2	36 1/2	20 1/2	13 1/2	8 1/2	4 1/2
Sep	184 1/2	132 1/2	90 1/2	58 1/2	39 1/2	23 1/2	16 1/2	10 1/2	5 1/2
Dec	187 1/2	135 1/2	93 1/2	61 1/2	42 1/2	26 1/2	19 1/2	13 1/2	6 1/2
Call 3270.6	115	236 1/2	150 1/2	102 1/2	64 1/2	36 1/2	20 1/2	12 1/2	6 1/2
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EURO STYLE FT-SE 100 INDEX OPTION (LFFE) £18 per full index point									
	3100	3150	3200	3250	3300	3350	3400	3450	
Mar	122 1/2	84 3/4	52 1/2	33 1/2	16 1/2	11 1/2	6 1/2	3 1/2	1 1/2
Jun	125 1/2	87 1/2	55 1/2	36 1/2	20 1/2	13 1/2	8 1/2	4 1/2	2 1/2
Sep	128 1/2	90 1/2	58 1/2	39 1/2	23 1/2	16 1/2	10 1/2	5 1/2	3 1/2
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## FT-SE Actuaries Share Indices

FT-SEA 360	1860.9	-1.4	1864.8	1662.6	1657.6	1421.1	3.54
FT-SE SmallCap	2038.78	-0.3	2043.99	2039.34	2046.77	1538.21	2.70
FT-SE SmallCap ex Inv Trusts	2018.63	-0.2	2022.63	2018.09	2027.28	1541.58	2.64
FT-SEA ALL-SHARE	1653.13	-1.3	1675.46	1614.87	1650.46	1403.41	3.48

■ FT-SE Actuaries All-Share

	Mar 1	Day's change	Feb 28	Feb 25	Feb 24	Year ago	Div. yield
10 INT'L EXTRACTN(16)	2569.46	-0.7	2558.63	2551.19	2533.86	2102.40	3.52
12 FT-SEA 360	1860.9	-1.4	1864.8	1662.6	1657.6	1421.1	3.54



### **INVESTMENT TRUSTS - Cont.**

[illegible]



**TRANSPORT - Cont.**[illegible][illegible][illegible]



## AUTHORISED UNIT TRUSTS

01	01.00
02	02.00
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90	90.00
91	91.00
92	92.00
93	93.00
94	94.00
95	95.00
96	96.00
97	97.00
98	98.00
99	99.00
100	100.00

escape route prices occur in January, TAC 02-1-378-0444

Pacific Corp.	5%	146.50	148.50	148.00	-1.50	0.0
Accum. Unrep.	5%	181.74	194.75	185.00	-9.75	0.0

98 Deflector Incomp.	0	65.58	68.53	70.56	+8.14	+6.10
99 Azimuth	0	74.52	75.57	82.10	+8.19	7.14

... ..



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## CURRENCIES AND MONEY

## MONEY MARKET FUNDS

## MARKETS REPORT

## Dollar recovers ground

Foreign exchange markets were dominated yesterday by the gyrations of the dollar which recovered from early weakness on the back of some strong economic data, writes Philip Gawn.

After slipping to a low of DM1.6945 in early European trade, the dollar later rose sharply to touch a high of DM1.705 before closing in London at DM1.706.

The catalyst for renewed dollar strength - a reversal of recent negative sentiment - was the release of fourth quarter GDP figures, and the February purchasing managers' index (NAPM).

The GDP figure was revised to an annualised 7.5 per cent from an earlier 5.9 per cent estimate, while the price component of the NAPM surged to 67, its highest since October 1980, from 58.8 in January.

These strong growth indicators renewed speculation that the US Federal Reserve may again raise interest rates.

Elsewhere attention was focused on developments in the UK and German money markets. In Germany the repo rate came down by three points to 5.95 per cent, while tight conditions in the UK discount market saw overnight rates rise to 20 per cent at one point.

The dollar started European trading at a new low for the year against the D-Mark after comments from Fed governor Mr Lawrence Lindsey suggested interest rates were unlikely to rise in the short term.

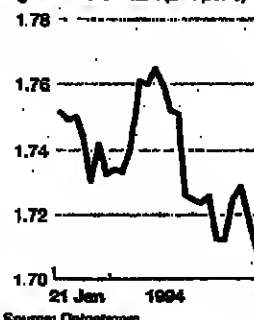
This compounded sentiment which was already bearish on account of the absence of clear investor demand for dollars and concern about the currency's failure to advance recently despite a run of favourable data and events. There was also concern the charge inflation, rumoured to be cash-short, were selling dollars.

These selling pressures gained further impetus when the Bundesbank announced that the repo rate was falling by only 3 basis points. The small increment of the fall was seen as leading support to the D-Mark.

The lunchtime release of the GDP and NAPM figures

## Dollar

Against the D-Mark (DM per \$)



Source: Datastream

■ Passed in New York

Mar 1 - 1.6945 - 1.6955

2 day - 1.6955 - 1.6965

1 mth - 1.6965 - 1.6975

3 mth - 1.6975 - 1.6985

1 yr - 1.6985 - 1.6995

5 yr - 1.6995 - 1.7005

10 yr - 1.7005 - 1.7015

30 yr - 1.7015 - 1.7025

50 yr - 1.7025 - 1.7035

70 yr - 1.7035 - 1.7045

90 yr - 1.7045 - 1.7055

110 yr - 1.7055 - 1.7065

130 yr - 1.7065 - 1.7075

150 yr - 1.7075 - 1.7085

170 yr - 1.7085 - 1.7095

190 yr - 1.7095 - 1.7105

210 yr - 1.7105 - 1.7115

230 yr - 1.7115 - 1.7125

250 yr - 1.7125 - 1.7135

270 yr - 1.7135 - 1.7145

290 yr - 1.7145 - 1.7155

310 yr - 1.7155 - 1.7165

330 yr - 1.7165 - 1.7175

350 yr - 1.7175 - 1.7185

370 yr - 1.7185 - 1.7195

390 yr - 1.7195 - 1.7205

410 yr - 1.7205 - 1.7215

430 yr - 1.7215 - 1.7225

450 yr - 1.7225 - 1.7235

470 yr - 1.7235 - 1.7245

490 yr - 1.7245 - 1.7255

510 yr - 1.7255 - 1.7265

530 yr - 1.7265 - 1.7275

550 yr - 1.7275 - 1.7285

570 yr - 1.7285 - 1.7295

590 yr - 1.7295 - 1.7305

610 yr - 1.7305 - 1.7315

630 yr - 1.7315 - 1.7325

650 yr - 1.7325 - 1.7335

670 yr - 1.7335 - 1.7345

690 yr - 1.7345 - 1.7355

710 yr - 1.7355 - 1.7365

730 yr - 1.7365 - 1.7375

750 yr - 1.7375 - 1.7385

770 yr - 1.7385 - 1.7395

790 yr - 1.7395 - 1.7405

810 yr - 1.7405 - 1.7415

830 yr - 1.7415 - 1.7425

850 yr - 1.7425 - 1.7435

870 yr - 1.7435 - 1.7445

890 yr - 1.7445 - 1.7455

910 yr - 1.7455 - 1.7465

930 yr - 1.7465 - 1.7475

950 yr - 1.7475 - 1.7485

970 yr - 1.7485 - 1.7495

990 yr - 1.7495 - 1.7505

1010 yr - 1.7505 - 1.7515

1030 yr - 1.7515 - 1.7525

1050 yr - 1.7525 - 1.7535

1070 yr - 1.7535 - 1.7545

1090 yr - 1.7545 - 1.7555

1110 yr - 1.7555 - 1.7565

1130 yr - 1.7565 - 1.7575

1150 yr - 1.7575 - 1.7585

1170 yr - 1.7585 - 1.7595

1190 yr - 1.7595 - 1.7605

1210 yr - 1.7605 - 1.7615

1230 yr - 1.7615 - 1.7625

1250 yr - 1.7625 - 1.7635

1270 yr - 1.7635 - 1.7645

1290 yr - 1.7645 - 1.7655

1310 yr - 1.7655 - 1.7665

1330 yr - 1.7665 - 1.7675

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1390 yr - 1.7695 - 1.7705

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1590 yr - 1.7795 - 1.7805

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1650 yr - 1.7825 - 1.7835

1670 yr - 1.7835 - 1.7845

1690 yr - 1.7845 - 1.7855

1710 yr - 1.7855 - 1.7865

1730 yr - 1.7865 - 1.7875

1750 yr - 1.7875 - 1.7885

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1890 yr - 1.7945 - 1.7955

1910 yr - 1.7955 - 1.7965

1930 yr - 1.7965 - 1.7975

1950 yr - 1.7975 - 1.7985

1970 yr - 1.7985 - 1.7995

1990 yr - 1.7995 - 1.8005

2010 yr - 1.8005 - 1.8015

2030 yr - 1.8015 - 1.8025

2050 yr - 1.8025 - 1.8035

2070 yr - 1.8035 - 1.8045

2090 yr - 1.8045 - 1.8055

2110 yr - 1.8055 - 1.8065

2130 yr - 1.8065 - 1.8075

2150 yr - 1.8075 - 1.8085

2170 yr - 1.8085 - 1.8095

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2870 yr - 1.8435 - 1.8445

2890 yr - 1.8445 - 1.8455

2910 yr - 1.8455 - 1.8465

2930 yr - 1.8465 - 1.8475

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2970 yr - 1.8485 - 1.8495

2990 yr - 1.8495 - 1.8505

3010 yr - 1.8505 - 1.8515

3030 yr - 1.8515 - 1.8525

3050 yr - 1.8525 - 1.8535

3070 yr - 1.8535 - 1.8545

3090 yr - 1.8545 - 1.8555

3110 yr - 1.8555 - 1.8565

3130 yr - 1.8565 - 1.8575

3150 yr - 1.8575 - 1.8585

3170 yr - 1.8585 - 1.8595

3190 yr - 1.8595 - 1.8605

3210 yr - 1.8605 - 1.8615

3230 yr - 1.8615 - 1.8625

3250 yr - 1.8625 - 1.8635

3270 yr - 1.8635 - 1.8645

3290 yr - 1.8645 - 1.8655

3310 yr - 1.8655 - 1.8665

3330 yr - 1.8665 - 1.8675

3350 yr - 1.8675 - 1.8685

3370 yr - 1.8685 - 1.8695

3390 yr - 1.8695 - 1.8705

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3490 yr - 1.8745 - 1.8755

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3530 yr - 1.8765 - 1.8775

3550 yr - 1.8775 - 1.8785

3570 yr - 1.8785 - 1.8795

3590 yr - 1.8795 - 1.8805

3610 yr - 1.8805 - 1.8815

3630 yr - 1.8815 - 1.8825

3650 yr - 1.8825 - 1.8835

3670 yr - 1.8835 - 1.8845



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ABS Inc.	0.23	21	37.15	4	18	15 1/2	+	Daugherty	0.82	21	79.25	24 1/2	24 1/2	24 1/2	+	Sevens	0.04	12	280	26 1/2	22 1/2	26	-1	Prod Con	0.24	25	30	27 1/2	27 1/2	+	Procter	0.14	14	401	38 1/2	34 1/2	34 1/2	+
ACC	0.21	19	73	282	28	19	+	Dash Sncs	0.20	18	174	24 1/2	24 1/2	24 1/2	+	S-K	0.00	12	280	26 1/2	22 1/2	26	-1	Procter	0.14	14	401	38 1/2	34 1/2	34 1/2	+							
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Accumax	0.21	19	73	282	28	19	+	Dash Sncs	0.20	18	174	24 1/2	24 1/2	24 1/2	+	S-K	0.00	12	280	26 1/2	22 1/2	26	-1	Procter	0.14	14	401	38 1/2	34 1/2	34 1/2	+							
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Karl Cunn for further details on Frankfurt Tel: 0130 5351, Fax: 069 5964481



AMERICA

# Inflation fears prompt sharp fall in Dow

## Wall Street

US share prices fell across the board in heavy trading yesterday morning in the wake of a sharp decline in bond prices that was inspired by fears of rising inflation, writes Patrick Horgan in New York.

By 1 pm, the Dow Jones Industrial Average was down 36.02 at 3,796.00, slightly off its lows for the day. The more broadly based Standard & Poor's 500 index was also lower at the halfway mark, down 3.69 at 463.45, while the American Stock Exchange composite was off 2.51 at 468.33 and the Nasdaq composite down 7.18 at 785.32.

Trading volume was 172m shares by 1 pm, and declines outpaced rises by 1432 to 545.

The day's first big economic news - an upward revision of the fourth quarter gross domestic product from 5.9 per cent growth to 6.5 per cent - had little impact on prices. Although this was ostensibly good news for stocks, analysts warn that these rates of growth will not be sustained in coming quarters. Also, investors are nervous at any sign of excessive economic expansion because it might prompt the Federal Reserve into raising interest rates again.

So far, however, prices turned decisively lower. The heavy selling was prompted by a sudden and sharp decline in bond prices, which pushed the yield on the benchmark 30-year bond up to 6.73 per cent, followed by the publication of the National Association of Purchasing Management's February report, and in particular, the announcement that the NAPM's index of prices rose sharply last month to its highest level since October 1990.

Like their counterparts in the equities market, bond investors are worried that the Fed will tighten monetary policy again soon. Yesterday's prices data from the NAPM, said analysts, brought the likelihood of another rate rise nearer. This thinking, plus the fact that the stock market rarely likes to see bond yields rising, was behind the declines in share prices. Additionally, traders said several computerised sell programs executed during the morning exacerbated the market's downward trend.

Among individual stocks, interest rate-sensitive stocks were lower as a group. Among banks, Citicorp fell 1/8 to \$40.75, while the American Bank Exchange composite was off 2.51 at 468.33 and the Nasdaq composite down 7.18 at 785.32.

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EUROPE

# Continental bourses affected by news from US

Late closing markets were affected by negative US data which suggested that inflation was rising, writes Our Markets Staff.

FRANKFURT fell back after Monday's positive start to the week as equities were again battered by nervousness in the bond market.

The Dax index closed the official session down 24.52 or 1.2 per cent at 2,067.05, and extended that loss in the post-bourse session, falling a further 46.00 to 2,021.05, as disappointing US data began to make itself felt.

The Bundesbank's easing of the repo rate to under 6 per cent did little to excite enthusiasm, coming within most expectations.

Of greater concern to the equity market is unrest among public sector workers, with IG Metall engineering union members due to ballot on strike action.

Among the day's heavy losers Daimler-Benz shed DM18 or 2 per cent to DM795 and then to DM792.50 in the after-market.

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## FT-SE Actuaries Share indices

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
1447.28	1446.86	1447.31	1441.94	1454.20	1432.83	1438.39	1431.18	1431.18	1431.18
1500.24	1500.24	1500.24	1500.24	1500.24	1500.24	1500.24	1500.24	1500.24	1500.24

analysts have recommended switching into the stock.

Blue chips were marked down on profit-taking by foreign investors, also taking the opportunity to bank currency gains.

Nestlé shed Sfr23 to Sfr1,250 and Roche certificates fell Sfr100 to Sfr6,900.

MILAN was dragged lower by weakness in bonds and the lira and the Comit index shed 8.96 to 649.24, with the market also inhibited by the political outlook in the run up to the elections on March 27-28.

Trading was halted for almost three hours due to technical problems, but volume was so low that the bourse hours were not extended.

ASIA PACIFIC

# Economic hopes help Nikkei close above 20,000 level

## Tokyo

The stable yen and hopes of a bottoming out of the economy supported investor confidence, and the Nikkei 225 average closed above the 20,000 level for the first time since February 8, writes Shingo Teramoto in Tokyo.

The index gained 219.42, or 1.1 per cent, at 20,216.62 on active buying by foreign investors. It opened at the day's low of 20,052.61 and peaked at 20,240.52 during the morning.

Investors were encouraged by better than expected industrial output figures and labour statistics announced on Monday. However, the tankan, the Bank of Japan's quarterly survey of business sentiment, announced yesterday had little impact on stock prices since it showed that sentiment among manufacturers was little changed from the previous report.

Large-lot profit-taking

around the 20,000 level by institutional investors in the afternoon prevented the Nikkei 225 from rising further, in spite of active overseas buying. The recent decline in the bond market also prompted a shift into the stock market by foreign fund managers.

Volume was 500m shares, against 460m the Tokyo index of all first section stocks advanced 13.77 to 1,645.48, while the Nikkei 300 added 2.02 at 304.25. Rises led falls by 780 to 289, with 140 issues unchanged. But in London the ISE/Nikkei 50 index eased 1.93 to 1,865.73.

Nippon Telegraph and Telephone rose ¥3,000 to ¥379,000 in spite of reports that it will not request a previously expected rise in local call rates for the next fiscal year, but instead plans to raise its core service rate, which would have a smaller effect on profits.

A strong rise in housing starts figures for January released on Monday supported

it was to issue 2.6m new shares, fell 70 cents to ¥154.50.

MADRID fell 2 per cent in line with weaker bond markets which were pushed lower by disappointment with the Bundesbank's smaller than expected repo rate cut, the US data and sales by foreign investors.

The general index shed 6.78 or 2 per cent to 332.68 in nervous trading.

Telefonos tumbled Ptas8 or 4.3 per cent to Ptas1,590 in volume of 6m shares after news that it was paying \$20m for Entel-Peru and CPT-Peru.

BRUSSELS saw losses in the bank and insurance sector despite an interest rate cut by the central bank.

The Bel-20 index closed up 1.10 at 1,516.90 in turnover of Bfr1.9bn.

Nonetheless, Arbed, the Luxembourg steel manufacturer, went against the trend, rising Bfr300 or 7.3 per cent to Bfr4,400.

Among insurers Groupe AG lost Bfr45 to Bfr2,880.

COPENHAGEN'S KFX index retreated 1.27 to 113.04 with

# Brazil sees a 5% rise at midsession, Mexico down

## Brazil

Brazilian equities remained 3 per cent ahead in midday trading on continued optimism over the creation of a new single price index.

The Bovespa index was up 527 at 11,066 in \$30 Paulo.

Traders said that blue chips gained liquidity in late morning trading after a few foreign investors returned to the market.

Midday volume was Cr17bn.

Telebras, the telecom group, was up 5.3 per cent at Cr31.70.

Oil group Petrobras was 11.2 per cent higher at Cr20.42.

● Brazil's central bank will use the newly created single price index, Real Value Unit, as a parameter for its interventions in the foreign exchange market, Reuters reports from São Paulo.

The bank said it will sell US dollars in the commercial and interbank domestic forex markets at the URV price of the day the deal takes place.

The rate at which the central bank will buy dollars in the market will be set freely between market players and the monetary authority. The deals will be settled two days

# Johannesburg boosted as Mandela meets Buthelezi

## South Africa

Johannesburg was given a boost during afternoon trading by the apparently congenial talks in Durban between Mr Nelson Mandela, the African National Congress president, and Chief Mangosuthu Buthelezi, the Inkatha Freedom Party leader.

Chief Buthelezi said the talks had been "going well", in spite of an earlier vow that his party's boycott of the April election was not on the agenda for the meeting.

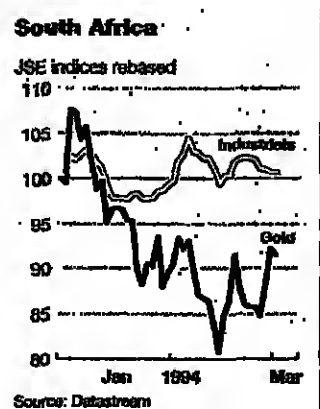
The market was provided with a further boost as the gold price traded above \$380 an ounce. The golds index rallied from an initial fall to end 9 off at 1,584, industrials added 5 at 5,614 and the overall index up at 4,480.

Golds had been depressed by the stronger commercial rand which was seen as dampening export earnings of the mines.

Anglos proved the most buoyant issue in the wake of the rising political hopes, appreciating 14 to 146.14 to 147.54.

Among the gold shares, Vaal Reefs lost R1.50 to R430.50 and Driefontein was off 25 cents at R55.25.

De Beers, the diamond giant, advanced R2 to R1,050 ahead of the release of the group's



## FT-Actuaries World Indices

Financially compiled by The Financial Times Ltd., Goldman, Sachs & Co and NatWest Securities									
NATIONAL AND REGIONAL MARKETS	US	Day's	Monday	Tuesday	1994	Local			
Markets in parentheses	Dollar	Change	Starting	Ytd	Currency	1993			
Number of lines of stock	of stock								
Australia (69)	175.35	0.55	174.94	115.44	155.00	103.63			
Austria (17)	167.85	0.47	167.50	122.73	198.78	197.28			
Belgium (45)	168.08	0.9	167.80	106.65	149.15	145.85			
Canada (107)	125.72	1.3	126.39	69.35	120.43	132.99			
Denmark (23)	246.53	0.2	246.73	177.28	245.93	245.93			
Finland (22)	137.13	0.1	135.96	99.96	130.72	171.02			
France (99)	159.05	0.5	158.78	119.88	155.88	162.99			
Germany (99)	172.46	0.5	172.17	87.22	172.98	117.98			
Italy (100)	242.42	0.3	242.13	275.13	242.13	241.73			
Japan (114)	150.80	0.6	150.41	130.61	169.31	189.11			
July (69)	73.95	0.4	73.77	48.69	65.82	69.02			
United Kingdom (69)	157.32	0.2	156.96	103.57	136.61	103.57			
Spain (23)	53.37	0.1	53.2	41.1	55.2	41.1			
Switzerland (18)	231.63	0.4	230.7	152.25	205.24	180.75			
Taiwan (18)	201.72	1.4	201.24	132.80	199.03	175.52			
New Zealand (14)	70.72	1.8	71.03	48.67	63.18	66.69			
USA (100)	175.35	0.55	174.94	115.44	155.00	103.63			
Singapore (45)	344.53	1.0	343.71	228.82	305.73	251.01			
South Africa (50)	240.23	1.2	239.56	155.15	213.17	247.44			
Sweden (42)	144.09	0.1	143.73	97.49	151.40	156.08			
Switzerland (18)	231.63	0.4	230.7	152.25	205.24	180.75			
Switzerland (49)	155.57	0.1	155.07	103.57	145.90	144.90			
United Kingdom (215)	202.71	1.1	202.23	133.46	176.89	202.23			
USA (518)	190.05	0.2	189.90	126.12	196.85	190.05			
EUROPE (745)	170.72	0.7	170.32	112.38	151.49	183.64			
Japan (114)	212.85	0.1	212.44	140.19	188.98	210.07			
North America (722)	187.48	0.9	187.06	110.25	148.80	114.98			
Asia (167)	169.47	1.1	168.15	111.99	169.47	169.47			
Pacific America (525)	166.99	0.9	166.24	122.90	166.85	181.11			
Europe Ex. UK (530)	159.19	0.5	158.84	98.69	133.26	140.50			
Japan Ex. Japan (53)	265.59	1.5	265.39	171.23	236.04	244.91			
World Ex. US (1655)	199.85	1.4	199.45	111.88	186.72	137.20			
World Ex. Japan (173)	173.12	0.8	172.73	103.57	173.12	173.12			
World Ex. S. Am. (210)	173.12	0.9	172.73	111.93	155.46	153.01			
World Ex. Japan (1701)	167.21	0.5	166.77	123.25	166.13	183.13			
The World Index (2178)	175.54	1.0	175.12	115.57	155.77	153.78			